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On the cover
By testing his missiles so recklessly, Kim Jong Il is trying to divide the coalition that has kept North Korea in check. He is a threat to stability in Asia and should be resisted—especially by China: leader

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Politics this week

Jul 6th 2006
From The Economist print edition

North Korea test-fired a series of seven missiles, despite concerted international pressure not to do so. Most of the missiles were shortish-range. One was a Taepodong-2, with a possible range of up to 10,000km (6,210 miles), though it exploded after 40 seconds into its flight. The UN Security Council was meeting to discuss the problem, but sanctions looked unlikely. See article

A **South Korean** survey vessel prompted Japanese anger by entering disputed waters near a group of islands that the South Koreans call Dokdo and the Japanese Takeshima. The waters may contain deposits of natural gas.

A series of three explosions killed one person and injured more than 40 in **Afghanistan's** capital, Kabul. In the south-east of the country, American troops killed a reported 35 militants in a battle. See article

China inaugurated a railway link to Lhasa, the capital of **Tibet**. It is the world's highest-altitude railway. China also opened a border-crossing between Tibet and India, closed for 44 years. See article

AP

On a mission

NASA launched its space shuttle *Discovery* for the first time since last July. As was the case then, officials remain concerned about potential damage to the craft caused by debris breaking away.

Joe Lieberman confirmed that he would run as an independent if he loses the Democratic primary in Connecticut on August 8th. The senator, a supporter of the Iraq war, is facing a challenge from an anti-war candidate whose campaign has received a boost from online activists.

New Jersey's state government began shutting down non-essential services after the legislature missed a deadline to pass a budget. Atlantic City's casinos had to stop their gambling operations as state casino inspectors were told to stay at home. See article

Getty Images

The politics of intolerance

An election was called for November 22nd in the **Netherlands** after the coalition government collapsed. The small D66 party withdrew its support in protest over the retention as interior minister of the hardline Rita Verdonk, who had tried to withdraw the passport of Ayaan Hirsi Ali, a Somali Muslim turned Dutch politician.

The **German government** adopted new health-care reforms, including setting up a new central fund to supplement payroll-tax revenues for health. The reforms, agreed by Angela Merkel's grand coalition after all-night talks, were promptly criticised by both the left and the right.

Slovakia acquired a new government, with Robert Fico, leader of the socialists, as prime minister. Mr Fico was criticised abroad for forming a coalition with two nationalist parties, including one led by Vladimir Meciar, who took Slovakia into isolation after it split with its Czech neighbour. See article

Macedonia held its fourth general election since it broke away from the former Yugoslavia in 1991. After

preliminary results, the prime minister, Vlado Buckovski, conceded defeat to the nationalist opposition, led by Nikola Gruevski.

A train crash on the underground in the Spanish city of **Valencia** killed 41 people. Early indications were that the train was speeding, causing it to leave the tracks.

Piling on the pressure

By sending its forces to attack militants and arrest many leaders of the Palestinian government in Gaza and the West Bank, **Israel's** government continued to try to force the return of an Israeli soldier, Corporal Gilad Shalit, who was abducted nearly a fortnight ago in a raid in Israel and taken to the Gaza Strip. Mediation got nowhere. See article

Iraq's government issued a new list of most wanted insurgents and fugitives from Saddam Hussein's regime, with the former dictator's intelligence head, Izzat Ibrahim al-Douri, at the top, and also including Mr Hussein's wife and eldest daughter. Meanwhile, at least 66 people, mostly Shias, were killed in a **Baghdad** slum in the country's bloodiest suicide-bombing for three months; another bomb killed at least 13 people, many of them Iranian pilgrims, in the holy city of Kufa.

In a general election in **Kuwait**, women for the first time were able to vote and run for national office. In the event, none was elected. Islamists and reformers both made gains at the expense of loyalists of the still-ruling royal family. See article

At an African Union summit in the Gambia, UN secretary-general Kofi Annan failed to persuade Sudan's president Omar al-Bashir to allow UN peacekeepers into the embattled **Darfur** region of the country. The AU did, however, promise to keep its own troops there, at least until the end of the year. See article

Joseph Kony, leader of **Uganda's** Lord's Resistance Army rebels, was offered an amnesty by President Yoweri Museveni if peace talks to be held next week are successful. The International Criminal Court, however, still insists that Mr Museveni is bound to hand over Mr Kony to the court for trial. See article

In **Somalia**, Islamist gunmen opened fire to disperse a crowd protesting against a ban on watching the World Cup, killing two people.

A challenging vote

AFP

Felipe Calderón, the conservative candidate, narrowly won **Mexico's** presidential election, according to an official count. His main rival, Andrés Manuel López Obrador, called for a vote-by-vote recount. The result may be challenged in the electoral court. Mexican shares and the peso yo-yoed on fears of political tension. See article

In **Bolivia**, the party of Evo Morales, the socialist president, won 50% of the vote in an election for a constituent assembly, meaning that it fell well short of the two-thirds majority of seats required to rewrite the constitution at will. In a parallel vote, Santa Cruz and three other departments backed a call for more regional autonomy. See article

The campaign for **Nicaragua's** presidential election, due in November, was complicated by the death of Herty Lewites, a former Sandinista standing for a moderate centre-left group. His death may help the electoral prospects of Daniel Ortega, the Sandinista leader. See article

Venezuela became the fifth full member of **Mercosur**, the trade group made up of Argentina, Brazil, Paraguay and Uruguay.

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Business this week

Jul 6th 2006
From The Economist print edition

All eyes were on the board of **General Motors** to see how it would respond to a proposed three-way alliance with **Renault** and **Nissan**. The tie-up was recommended by Kirk Kerkorian, an investor who owns a stake of almost 10% in GM, and prompted a speedy offer from France's Renault and Nissan, its Japanese affiliate, to hold talks with the troubled Detroit company. Analysts urged caution on all sides and pointed to previous alliances in the car industry that have gone awry, including GM's fraught (and ultimately expensive) relationship with Fiat. See article

Kenneth Lay died following a heart attack. He was 64. The former boss of Enron had said he would appeal against his recent conviction (along with Jeffrey Skilling) for his part in the collapse of the energy trader in 2001. Once a friend of George Bush and widely praised during Enron's meteoric rise, Mr Lay had been due to be sentenced in September. See article

Franco-German co-operation

Noël Forgeard was ousted as co-chief executive of **EADS** (which owns 80% of Airbus) following three weeks of turmoil for the aerospace and defence company. Mr Forgeard's difficulties began with a profit warning caused by delays to the A380 super-jumbo and were compounded by an investigation into his sale of EADS shares. **Airbus's** chief executive, Gustav Humbert, was also sacked. See article

Meanwhile, **BAE Systems** revealed that the 20% stake it owns in Airbus, and which it wants to sell to EADS, had been independently valued at €2.75 billion ($3.5 billion), much less than markets had expected. The reasoning behind the low value was not divulged, but the British-based defence contractor ordered an audit of Airbus (which is not publicly listed), delaying a decision on the sale until at least September.

Markets reacted sceptically to **Japan Airlines'** plan to raise ¥222.7 billion ($1.9 billion) from issuing new shares, which it announced last week. With JAL recording big losses, investors fear the shares will be sold at rock-bottom prices, diluting the company's value.

Following its recent listing in Hong Kong, **Bank of China** floated its shares on the Shanghai stock exchange. The state-run bank's share price was up by 23% on its first day, raising 20 billion yuan ($2.5 billion) and making it China's biggest domestic public offering.

Crédit Agricole confirmed that it was no longer interested in acquiring **Alliance & Leicester**, causing the British lender's share price to fall sharply. A deal had been mooted since May, when France's biggest retail bank expressed its interest in A&L. Since then, Crédit Agricole has made an offer for Emporiki, a Greek bank that is being privatised and for which Bank of Cyprus is also bidding.

Two former foreign-exchange dealers at **National Australia Bank** received prison terms for a scandal involving rogue trading that led to the resignations of both the chairman and chief executive of Australia's biggest bank. The dealers, along with two colleagues who were sentenced earlier, had tried to conceal losses after the Australian dollar appreciated in 2003.

Ill winds

The **Doha round** of trade talks seemed close to collapse as the latest meeting held to iron out differences over farming and services failed to make progress and ended early. See article

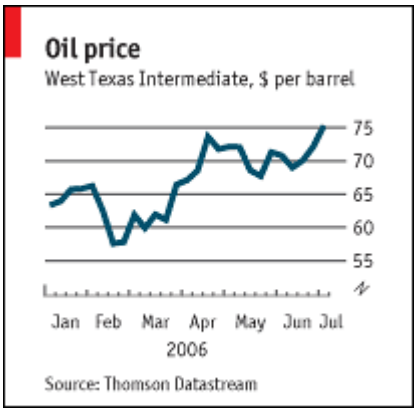
Britain's **Wellcome Trust**, the world's second-largest biomedical-research funding foundation, said it

planned to raise funds by issuing a bond in the coming weeks. The bond has received both Moody's and Standard & Poor's highest credit-rating and will be the first to be issued by a European charity.

Qualcomm's conduct came under the spotlight again as two American competitors, Texas Instruments and Broadcom, filed an antitrust complaint in South Korea alleging the chipmaker was levying unfair patent royalties.

The company that owns **Hard Rock Cafe** said it was considering a sale of the chain, which operates in 43 countries. Such a decision would leave **Rank** to concentrate on its core gambling businesses. The news comes amid a lively debate in Britain, where Rank is based, about the merits of Las Vegas-style casinos.

An employee at **Coca-Cola** and two accomplices were arrested for trying to pass trade secrets, including a sample of a new drink, to arch-rival **PepsiCo** (which tipped Coca-Cola off about the theft).



Ever upwards?

The **price of oil** reached new highs, pushing above $75 a barrel. Markets remain skittish about the perceived threat to oil supplies from the stand-off with Iran over its nuclear ambitions and North Korea's missile tests only added to the nervy mood.

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North Korea's missiles

Rocket man

Jul 6th 2006
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Kim Jong Il is a threat to stability in Asia. He should be resisted—especially by China

THERE is no law against testing missiles, even far-flying ones intended to rattle nerves around the globe. Yet North Korea's attempted firework display, launching a Taepodong rocket (which fizzled) and half a dozen others (which worked) was calculated to blast a hole in the diplomatic effort by America, South Korea, Japan, China and Russia to get Kim Jong Il's regime to give up its nuclear bomb-building. The bigger worry is that this week's pyrotechnics will incinerate wider efforts to stabilise a region full of dangerous rivalries.

With its medieval economy and eccentric leader, the Hermit Kingdom often seems more tragi-comic than threatening. By many measures, North Korea is not even the most terrifying country in Asia; that dubious honour belongs to Pakistan (see leader and survey). Evil though Mr Kim undoubtedly is, the chief dangers his regime poses to outsiders are often accidental: that one of its rockets will unintentionally hit Japan, or that North Korea's economy will collapse (something that terrifies both China and South Korea). Mr Kim claimed that his previous launch—of a Taepodong missile over Japan in 1998—put into orbit a satellite which then warbled patriotic tunes back from space. In fact, although that rocket flew farther than this week's ones, its final stage plopped into the Pacific.

Mad, bad and actually rather dangerous

Yet there are still grounds for worry. Mr Kim would not be the first to claim a space programme as disguise for a weapons programme, and rockets that can lift other things into space can carry warheads too. His latest Taepodong missile, if it can be made to work, might reach parts of North America. It seems unlikely that North Korea would be able to put a nuclear warhead on such a device. But no one knows for sure—and North Korea has worked closely in missile and nuclear matters with Pakistan. A missile test may not be as frightening as the bomb test he contemplated doing last year, but this week's launch drew angry reactions from America, Russia, Japan and even South Korea, which usually glosses over Mr Kim's provocations in the hope of smoother North-South relations.

So what is Mr Kim up to? Miffed at America's recent crackdown on his kleptocratic regime's hard-currency take from dollar counterfeiting, drug running and the like, this week's display was partly a rocket-fuelled raspberry at George Bush. It may also partly have been intended as a technology demonstration for the few countries still in the market to buy North Korean missiles, such as Iran (if so, it did not work well).

But Mr Kim's biggest target was surely the six-way talks; in particular, he wants to be treated more like Iran or, especially, India.

North Korea was offered economic and other inducements last September, provided it gave up its claimed clutch of bombs. That puts it broadly in the same category as Iran, which is suspected of having nuclear-weapons ambitions, and is mulling over a superior list of enticements from several European countries, America, Russia and China to give them up. India built its bombs years ago outside the Nuclear Non-Proliferation Treaty (unlike North Korea and Iran, which both signed the NPT and then cheated). It hopes the Bush administration can persuade Congress to ratify a foolish deal that would accord it all the civilian nuclear benefits available to the NPT's nuclear-free members while enabling it to continue its bomb-building. North Korea would like the same: to be accepted by America as a nuclear power and still rewarded.

That might seem crazy, especially given the likelihood of sanctions that can only cripple further North Korea's basket case of an economy. But Mr Kim calculates differently. He has always shown scant regard for the plight of his people, caring only for the security of his regime. He still expects to get a good two-thirds or more of the oil and food he needs from China—helping to stave off a return of the famine of the 1990s—and more dollops of aid from South Korea. And that, he knows, will infuriate the Americans.

That is how the wider damage could now be done. Ever since North Korea was caught cheating on its NPT promises for a second time (first making plutonium, later dabbling with another potential bomb ingredient, uranium), America has insisted on the six-way format for nuclear talks. By preventing North Korea playing its neighbours off against each other and America, this has cut Mr Kim's wiggle room. But a split has opened up. America and Japan have stood firm, pressing North Korea to give up its nuclear programmes (and, in Japan's case, to release more of the Japanese citizens abducted over the years by the Kim family regime) and withholding major aid until it does. South Korea and China have lately increased both trade and aid. If their plan was to coax Mr Kim into better behaviour, it has failed.

Where things go from here depends largely on China. North Korea's 1998 test blew a gaping hole in China's diplomacy in the region. It pushed Japan into co-operating even more closely with America on security matters, including on missile defences that some day might be extended to cover Taiwan. The latest test will reinforce Japan's readiness to do more in its own defence, and with America. And it is also a snub to China, which has been convening the six-way effort.

Reasons to stick together

The temptation for a wounded China will be to blame all this on America and Japan. China does not want to antagonise the unpredictable Mr Kim; and it is keen to draw South Korea closer in the game of regional rivalries (both countries have rows with Japan over disputed islands). The result could be a new round of regional suspicion and rivalry—or worse.

Alternatively China could shoulder some real responsibility for security in East Asia and close ranks against Mr Kim. That should start with a clear condemnation from the UN Security Council. But it should go further. Loth to apply sanctions, China props up Mr Kim's regime. Holding back some of that largesse would show him that he cannot destabilise the neighbourhood and get away with it. A lot more than the awkward Mr Kim's future depends on it.

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Security in Asia

The trouble with Pakistan

Jul 6th 2006
From The Economist print edition

A country that everyone should worry about

TERRORISM has many sources and claimed justifications, but if it can be said to have a centre, it lies in the training camps, *madrassas* and battlefields of northern Pakistan and south-eastern Afghanistan. There the Taliban and their ally, al-Qaeda, were both formed. From there, in hellish diaspora, *jihadis* have fanned out across the globe. Add to that Afghanistan's lawlessness and ability to produce vast amounts of opium, not to mention Pakistan's wretched history of venal democrats and clumsy dictators, and its lamentable record on nuclear proliferation, and it is clear why what happens in those two places is of huge importance to the rest of the world. From neither place is there much good news.

The West has invested a huge amount in Pakistan's General Pervez Musharraf, who seized power in October 1999. This newspaper was prepared to give him a chance on condition that he acted swiftly and firmly to rein in extremism and sort out the economy, and then returned to barracks. He failed to do any of that. After September 11th 2001, however, he was recast as a provider of relative stability in a dangerous neighbourhood, and an essential ally in the “war on terror”. Money was showered upon him; he was feted in Washington, DC, and London. Only gradually has it started to dawn on his admirers that, in the past five years, he has not done very much to make Pakistan a less dangerous place.

A destroyer of democracy

True, the economy has improved quite a bit since 2001—and not just because of all that donor money. But promises, made even before September 11th, to bring the country's most radical *madrassas* under control have not been kept. The training camps that Pakistan's powerful Inter-Services Intelligence (ISI) agency has long tolerated because of their usefulness against India and in Afghanistan still exist, though they have been told not to mount any operations for now. The most dangerous outfits, such as Lashkar-e-Toiba (the Army of the Pure), have been banned, only to reappear under new guises. Not until 2004 and under the most intense American pressure did Pakistan arrest Abdul Qadeer Khan, the scientist who had cheerfully sold nuclear secrets to anyone prepared to pay.

But perhaps the most damning criticism of General Musharraf is that he continues to do grave damage to the long-term political health of Pakistan (see our survey). In his seven long years in office, he has insinuated the army into every nook and cranny of Pakistani public life, weakening institutions that were feeble already, emasculating its political parties and reducing parliament to a squabbling irrelevance. He has sacked judges when it suited him, created and dismembered parties at his own convenience, rigged a referendum on his presidency and used Pakistan's constitution to write his own job description. None of this bodes well for a post-Musharraf future—which could arrive at any moment given the enthusiasm of his enemies for trying to kill him.

Like a previous “caretaker” dictator, General Zia ul-Haq, who held power for 11 years before being killed, General Musharraf has been unable to resist the temptation to play politics with Islam, even if, unlike Zia, he has also had some success at purging fundamentalists from the top ranks of the army. He has forged a disparate group of Islamic political parties into a block that has helped him outmanoeuvre the democratic opposition; these Islamists are pushing hard for the extension of *sharia* law.

And then there's Afghanistan

It would not be fair to blame Pakistan for everything that is going wrong in Afghanistan. The government of Hamid Karzai is weak and corrupt; because of the West's continued failure to live up to its promises, much of the country, outside the big cities, is in the grip of bandits and warlords. But Pakistan's contribution to Afghanistan's chronic insecurity should not be underestimated. Both the Taliban and the remnants of al-Qaeda are able to take refuge on Pakistani soil, which makes the job of the soldiers from Western countries who have been struggling to eliminate them for the past five years much more difficult. The Taliban, after all, were in part a creation of Pakistan's ISI, which saw in them a way to establish a friendly state on their western flank, a vital strategic consideration for an organisation that sees itself as locked in perpetual conflict with India to its east.

General Musharraf, by contrast, contends he is doing all he can to root out Taliban fighters from their sanctuaries in the tribal areas, and Pakistan has lost more than 600 soldiers fighting there. Even so, say the critics, it could try much harder, especially given the size of its army. And as for al-Qaeda, none of General Musharraf's protestations can hide the fact that Osama bin Laden is generally reckoned to be holed up on Pakistani soil. Lesser terrorists such as Khalid Sheikh Mohammed, the planner of the September 11th attacks, have been caught and handed over by the general, but Mr bin Laden goes on evading capture.

The danger is that Afghanistan may now, thanks to Pakistani meddling and Western neglect, gradually revert to what it was before September 2001: a state partly captured by the most dangerous Islamists. Belatedly waking up to this threat (see article), Britain is leading NATO into risky action in Afghanistan's southern provinces, a swathe of territory where the Kabul government's writ is ignored and where a record-breaking crop of poppies was recently harvested. With a remit that has been altered to war-fighting at short notice, inadequate numbers and an apparent lack of enough helicopters and armoured support, these soldiers are taking politically painful casualties. There is a risk that the will of the politicians back home to go on fighting will swiftly fade.

An unstable, nuclear-armed Pakistan, intertwined with a chaotic and Taliban-dominated Afghanistan: it is not a settling prospect. It has all happened before, of course. The result was September 11th, swiftly followed by a terrorist outrage in Delhi that came close to provoking full-scale war between Pakistan and also-nuclear India. What will happen next time?

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Mexico's presidential election

Behind the confusion

Jul 6th 2006
From The Economist print edition

An apparent victory for Felipe Calderón—and for democracy

AFP

AFTER a long, dirty and divisive campaign, voters in Mexico's presidential election of July 2nd found it desperately hard to choose between Felipe Calderón, a conservative, and the left-of-centre Andrés Manuel López Obrador. As *The Economist* went to press, an official recount of the vote seemed poised to match the conclusion of an earlier preliminary tally, giving victory to Mr Calderón by more than 100,000 votes out of 42m. The count will doubtless be contested by his opponent, who had himself claimed victory on election night. Weeks of legal wrangling may follow, attended by the ever-present fear that Mr López Obrador might seek to cause chaos by calling his supporters onto the streets.

Nevertheless, there are several positive things about this election. The doubt over the outcome is itself a refreshing novelty. For 70 years until the victory of Vicente Fox in 2000, elections were always won by the nominee of the ruling Institutional Revolutionary Party (PRI). Second, Mr Calderón's victory may be narrow, but it seems clear. Election observers found no evidence of serious irregularity. Despite the odd glitch, Mexico's relatively new democratic machinery is performing well. There is every reason to believe that the count was honest and that any appeal to the Electoral Tribunal will receive a fair hearing. Mr López Obrador has so far acted responsibly, doubtless because he knows that Mexicans would reject any recourse to violence.

For Mr Calderón, a 43-year-old lawyer and economist, the outcome amounts to a remarkable political triumph. Few would have predicted it a year ago, when he battled to win the nomination of Mr Fox's National Action Party against the president's chosen candidate. His first task will be to heal the wounds inflicted by a campaign which polarised the country. He might be wise to seek a consensus on constitutional changes—such as a shorter presidential term and a run-off ballot—to take some of the tension out of close elections in future.

Seeking reform, not adventure

Such a wafer-thin mandate is far from ideal. But if Mexico can navigate the next few weeks, the prospect need not be gloomy. Mr Calderón's strong campaign has put his party within talking distance of the majority in Congress that eluded Mr Fox. He has said that he wants to form a coalition government. He may find recruits in the PRI, which logged its worst-ever electoral result. Mexico might just be able to move forward with some of the reforms—of energy, competition law and labour markets—that it needs to raise its lacklustre rate of growth. Although his opponent is not anti-American, relations between Mexico

and the United States should be closer under Mr Calderón. At the same time, he should be an important ally for those in Latin America opposed to the radical populism of Venezuela's Hugo Chávez.

Mexico's vote was one of a dozen in Latin America in as many months starting last December. It has confirmed two political trends. One is that many Latin American voters want moderate change and more emphasis on rectifying social ills. That explains why Mr López Obrador was such a strong contender. Yet alongside this much-trumpeted shift to the left, there is another, less-noticed trend. It is that many Latin Americans are benefiting from democracy and hard-won economic stability. They feel they have something to lose from populist adventures. That explains Mr Calderón's apparent triumph, which is on a par with recent elections in Colombia and Peru. Before any celebration, however, Mexico's electoral authorities and its two main candidates must ensure that political instability does not jeopardise those gains.

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Israel and Palestine

A deadly cycle

Jul 6th 2006
From The Economist print edition

The Israelis and the Palestinians are both making matters worse

AFP

BOTH sides are stuck in a hole; both seem bent on digging deeper. Since Palestinians abducted an Israeli soldier nearly a fortnight ago, the Israelis have thrown caution to the wind in their effort to rescue him. Their actions have been increasingly disproportionate—and look no more likely to win the hapless Corporal Gilad Shalit's release. Israel has, in effect, besieged the entire Gaza Strip—increasing the misery of the wretched 1.4m people who live there. The operation is doing nobody any good. Of course, it would be sensible if the Palestinians handed back the corporal. Of course, the Israelis should not have overreacted in the way they have. And of course, all this sets back the prospect of ever-elusive peace that bit further.

The disproportionality is plain. Last month, according to an Israeli human-rights organisation, Btselem, Israeli troops killed 42 Palestinians, 24 of them civilian bystanders, not counting a family of seven killed in a beach explosion that Palestinians think was caused by an Israeli shell. In the same period, the Palestinians have killed two Israeli soldiers and an Israeli settler. Israel makes much of the fact that since its troops evacuated the Gaza Strip nearly a year ago, Palestinians have continued to fire home-made rockets into southern Israel; this week one hit a school car park in an Israeli town six miles (ten kilometres) north of Gaza. These crude missiles have killed eight Israelis in the past five years. That does not compare with the casualties habitually suffered by Palestinian civilians when Israel assassinates its opponents from the air.

In Palestinian eyes, Israel's attitude to the issue of prisoners is no less disproportional. The kidnapped corporal is the Palestinians' sole captive. Palestinians point out that some 8,200 of their militants are in Israeli jails; no doubt they are far better protected than Corporal Shalit, but 800 of them are held without charge. Some have committed vile crimes against civilians; others, the Palestinians stress, have fought Israeli soldiers occupying Palestinian territories.

Thinking ahead

Israel upped the ante last week by arresting eight ministers of the Palestinians' Hamas government, plus some 60 officials. This was a mistake, bolstering the impression that Israel seeks to destroy the Palestinians' recently elected government. Instead of trying to coax the Palestinians out of their hole to give back the corporal, it has shoved them more tightly into it. No one, it seems, has anyone to talk to.

For sure, Hamas has been stupid and malevolent. It has lamentably failed to understand Israel's sensitivities over past efforts to retrieve captives from Arab hands. Though groping towards an implicit recognition of Israel, Hamas's leaders have talked too ambiguously. Their inflexibility over the corporal may be making Israelis less inclined to take Hamas seriously as an interlocutor in the longer run.

But the longer run is what matters. The latest stand-off must not provide the pretext for an indefinite impasse. It is still, in essence, a matter of nailing down where those states of Israel and Palestine should lie; even Hamas probably knows that. Once the Shalit episode is over, with luck not at the cost of the young man's life, Ehud Olmert, Israel's prime minister, must start to fulfil his promise to withdraw, in the next year or so, from most of the West Bank, though he presently refuses to consult the Palestinians. The two states should sit roughly on either side of the 1967 boundary, as broadly laid out by President Bill Clinton after the Camp David talks of 2000, at Taba a few months later, and under the Geneva Accord of 2003. The barrier now eating into Palestinian land, though likely to be the rough border, must in due course be amended (with land swaps) to give the Palestinians a deal they can stomach.

For now, the Israelis seem intent on proving there is “no Palestinian partner”. Hamas has often helped strengthen that thesis. But not in the long run. Mr Olmert, or whoever is prime minister, will one day have to negotiate with the Palestinians, whoever they choose as their leaders. There is no other way.

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Trade talks

Slouching towards disaster

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From The Economist print edition

The Doha trade round is dying of apathy. Only George Bush can save it

AFP

THE world's trade ministers gathered in Geneva last week for what was billed as a final attempt to salvage the Doha round of global trade talks. That those efforts got nowhere is depressing. The really bad news is that no one seemed to care.

Kemal Nath, India's trade minister, turned up 90 minutes late for the first big meeting, because he had thought it more important to watch Germany beat Argentina in the World Cup. Rather than haggle through the night, as trade negotiators are wont to do, the ministers took it easy and went home early. The negotiators promised to keep talking—but did not bother to set a date for further discussion. All this failed to excite the financial press. It is bad enough when trade talks break up in acrimony; how much worse that the Geneva gathering petered out amid complacency and apathy.

Time for a penalty shoot-out?

Today's malaise has two possible explanations. Either the authors of any deal—America, the European Union and the big emerging economies—have concluded that it does not matter if Doha fails; or they see no need to reach an agreement quickly. Just as earlier global trade negotiations, such as the Tokyo and Uruguay rounds, dragged on for years, so today's negotiators might believe that the Doha talks can simply be put on hold; something will emerge eventually.

Both lines of argument are flawed. The stakes go far beyond the narrow gains in this round for trade in farm goods, lower industrial tariffs and more open markets for services (though those are not to be sniffed at). If the Doha talks go nowhere, the future of the multilateral trade system itself will be at risk. The efforts of trade officials are already shifting from the multilateralism that Doha represents to regionalism. There are now more than 250 bilateral and regional trade deals, double the number of a decade ago, and many more are being negotiated. If the Doha round collapses, regionalism, despite its unarguable economic inferiority, will replace multilateralism as the organising principle of global trade. The World Trade Organisation will rapidly wither as a negotiating forum for new rules; it may eventually lose its legitimacy as an arbiter of trade disputes, whereby the old rules are upheld.

A deadline in Washington, DC

What about the idea that there is no real time pressure? This ignores American politics. George Bush's trade-promotion authority (TPA) expires in June 2007; after then, any deal will have to go through Congress where it will be picked apart by special interests. That deadline means a trade deal must be concluded this year—which in turn demands a political breakthrough now. The possibility of extending TPA is slim. November's mid-term elections will probably increase the number of Democrats in Congress, shifting the balance of the legislature towards protectionism. Even Democrats who support freer trade will be loth to hand Mr Bush a political victory.

The world economy has been extraordinarily buoyant during the years that the Doha negotiators have been haggling. That cannot last. Slower growth and higher unemployment will surely make it harder to get a trade deal done.

Although today's complacency is unforgivable, overcoming it will not be easy. Conscious that they will lose if Doha fails, some big trade powers, notably Brazil, at last appear ready to compromise. But many still see the cost of failure as being lower than the short-term political price of success. India, in particular, is more worried about upsetting subsistence farmers than it is excited by the prize of freer trade in the services that now matter so to its economy. America, too, seems increasingly uncertain that the likely outcome of a Doha deal is worth the pain of facing down farmers. The latest Geneva talks got nowhere in large part because America refused to make bigger cuts in its farm subsidies (see article).

America does not bear all, or even most, of the blame for Doha's deadlock. But at this eleventh hour, Mr Bush may be the only person capable of breaking it. A dramatic display of political courage by the world's biggest economy and the traditional leader of the multilateral trading system could still jolt the round from apathy to action. Mr Bush should offer deeper cuts in farm subsidies than he has been willing to discuss so far, shaming the Europeans and others to greater openness. A clear, public commitment by Mr Bush at the G8 summit in St Petersburg next weekend offers the best, and probably last, opportunity to save the Doha round. If he cares about global trade, Mr Bush should grasp it.

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General Motors

Rick's Place

Jul 6th 2006
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The Renault-Nissan alliance works. Adding General Motors could break it

IN THE closing shots of “Casablanca”, Rick Blaine escorts Captain Louis Renault from the airfield with the compliment that “I think this is the beginning of a beautiful friendship.” This week a different Renault addressed a different Rick, but the words were the same. France's largest carmaker, which already has an alliance with Japan's Nissan, said the pair of them would consider taking a 20% stake in General Motors, run by Rick Wagoner. There is no mistaking the ambition of this. The resulting alliance would command 22% of the world car market, twice as much as its nearest rival. But ambition alone does not amount to a hill of beans.

That such a scheme has been proposed at all shows how two (somewhat contradictory) beliefs have taken root in business. The first is that firms must grow to stay ahead of the vast, impersonal forces of globalisation; the second that talented individuals make all the difference in giant corporate bureaucracies. GM's investors welcomed the deal, as they would do anything that challenged their company's dismal status quo. But the cautious reaction of shareholders at Nissan and Renault was more realistic. This deal will be very hard to pull off.

Go on, play it, Carlos

Listing GM's difficulties, it is hard to know where to start. The company's share of its home market has fallen by 17 percentage points in the past 20 years; it is burdened with health care and retirement liabilities; it has too many brands and too few successful new models. In spite of a recent rally on a deal to retire a third of the workforce, its share price is pitifully weak. No wonder Kirk Kerkorian, a billionaire investor nursing a big loss on his 9.9% stake in GM, is so keen to promote the Renault-Nissan scheme. He wants GM's managers, as well as its investors, to understand that strong medicine is called for.

Whether a triple dose of carmakers is the right remedy is less obvious (see article). There may be economies of scale in buying components and in spreading research-and-development costs over more cars. Renault owns 44% of Nissan, while the Japanese firm has a 15% stake in Renault; adding GM could improve their position in parts of the world, notably Brazil, Russia and China, where the American firm is well established. All three companies could perhaps gain from sharing the basics of a vehicle—engines, transmissions and so on—allowing more new models to be introduced faster around common platforms, a big edge in a highly competitive market.

Meanwhile, the argument for individual talent is stronger in this deal than in many others. An alliance

with Nissan and Renault would bring to GM the exceptional gifts of Carlos Ghosn, head of Renault and Nissan and the leading man in an industry in which talent rarely matches ego. Within 18 months of arriving at Nissan in 1999, Mr Ghosn had closed five factories and cut 25,000 jobs, sold stakes in various parts-makers and cut Nissan's Mount Fuji of debt. When Bill Ford twice tried to lure Mr Ghosn in recent years, it was said that success would immediately add $10 billion to Ford's stockmarket value—a point surely not lost on Mr Kerkorian, who may be bent on rescuing his investment rather than GM itself.

However, even the redoubtable Mr Ghosn would struggle to make GM-Renault-Nissan work. Although Renault-Nissan is an example of successful cross-border consolidation, it is a rare one. The 1998 takeover of Chrysler by Daimler-Benz was a disaster in its first six years. Ford's takeovers of Land Rover and Jaguar have severely disappointed; BMW's purchase of Rover was a flop. And those were takeovers, in which control was relatively straightforward. The GM plan is an alliance; that makes it more like DaimlerChrysler's link with Japan's Mitsubishi (which was dissolved in the face of huge losses) or Mr Wagoner's own strategy of becoming global by buying small stakes in car firms in Asia and Europe (a messy failure that has now largely been scrapped).

The fundamental things apply

The suspicion remains that the world's largest carmaker is already in a position to tap into the economies from globalisation. If its famously inward-looking bureaucracy cannot realise these today, adding Renault-Nissan will hardly make the job easier. Moreover, stretching Mr Ghosn's talents across so many businesses risks condemning him to be ineffective in all three (there are a few signs that he is struggling with two). As a lovelorn bar-owner would have said: “If this alliance goes ahead, shareholders will regret it, maybe not today, maybe not tomorrow, but soon and for the rest of their lives.”

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On Muslims, free expression, Los Alamos National Laboratory, the environment, the National Health Service, BBC News, Jeeves

Jul 6th 2006
From The Economist print edition

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Provincial attitudes

SIR – Your report on Islam in America and Europe did not accurately describe the situation in Amsterdam after the murder of Dutch filmmaker Theo van Gogh by a Muslim extremist in 2004 ("Look out, Europe, they say", June 24th). Your report states that there was tit-for-tat violence, but the reality is that it was fairly quiet in the city at the time. Most of the violence occurred in provincial and rural areas. In Uden (in the province of Brabant) vandals set fire to an Islamic school, and in Venray (Limburg) there were violent clashes between Christian and Muslim youngsters. In Amsterdam there was not one recorded incident. So although the Dutch climate of tolerance has changed for the worse in the Netherlands, the people of Amsterdam showed that they at least can make the distinction between fanatic fundamentalists and their Muslim neighbours.

Koen de Regt
Amsterdam

SIR – The term "Eurabia" meshes the words "Europe" and "Arabia" to characterise Islam in Europe, yet this perpetuates a stereotype that every Arab person is Muslim ("Tales from Eurabia", June 24th). Arabs can also be Christians or even Jews. Moreover, the vast majority of Muslims are not in fact Arabs and live in non-Arab countries, such as Indonesia and Pakistan.

Jihane Habachi
Cardiff

SIR – In New York a significant number (maybe even the majority) of taxi drivers, are first-generation immigrants who are Muslims, Hindus or Africans of various religions. Regardless of their background or religion, when I ask these drivers about their families and experiences in America (which I have done on a regular basis for several years) the answer without exception is always the same: they are delighted to be in America and both they and their children have no time for the sectarian squabbling which permeates Europe and their homelands. America will never have the sectarian problems of Europe since the Muslims who arrive on our shores are too busy making a better life for themselves and their families.

Jeffrey Dunetz
New York

Talking of Islam

SIR – The only thing more disturbing than watching the United States Senate tinkering with the constitution for political gain is realising that 66 senators have no sense of irony whatsoever ("Wrapping themselves up in Old Glory", July 1st). Five months ago many of the same politicians that now advocate amending the constitution to ban "flag desecration" were lecturing Muslims about freedom of expression and chastising them for trying to suppress offensive cartoons of Muhammad. If a foolish consistency is the hobgoblin of little minds, these senators must be great souls indeed.

Chris Truax
San Diego

Los Alamos laboratory

SIR – Your article on Los Alamos National Laboratory egregiously misrepresents the working environment at the laboratory, both at present and in the past ("A good enough performance?", June 17th). For example, there is no evidence of a scientific "exodus"—not even an up-tick in the number of people leaving Los Alamos because of the new lab management and operating contract. When researchers do accept high-quality jobs elsewhere, it is more a testament to the quality of Los Alamos's staff than an indictment of the quality of life or research here. Further, the article closes with an almost laughable assertion that the laboratory is at risk of "a total shutdown". According to whom? Of all the local, national and international press articles written about the laboratory, only *The Economist* has ever suggested a total shutdown is even a possibility— however "unlikely" that may be.

Jeff Berger
Director, Communications office
Los Alamos National Laboratory
Los Alamos, New Mexico

Ostrich economics?

SIR – It surprises me how a publication such as *The Economist*, which prides itself on economic savvy, can still support Bjorn Lomborg's head-in-the-sand view of environmental policy ("Bolton v Gore", June 24th). With your global reach you know of the disastrous situation to China's environment from burning coal, the loss of vast swathes of coral reefs and the strengthening of Atlantic hurricanes, to name just a few gathering crises. If you worked as I do in Haiti you would know how tough it is to promote development in an environment destroyed by deforestation. If economists understand the benefit of putting money away early for retirement, is it so hard to see the benefit of making simple, low-cost changes to energy policy now to avoid great costs later on?

Hamish Fraser
Harvard Medical School
Boston

Reform in the NHS

SIR – I welcomed your comments on independent-sector treatment centres (ISTCs) (Bagehot, June 10th). Notwithstanding recent criticisms of National Health Service reforms by Dr Paul Miller, chairman of the British Medical Association's Consultants' Committee, and others at the BMA, we are an integral part of the NHS and believe a closer working partnership between our two organisations benefits patients.

NHS patients want shorter waiting times, convenient opening hours, fast results and high clinical standards, which is what ISTCs offer and which is why every satisfaction survey shows patients value the diagnosis and treatment they receive in the centres. Indeed, an average of around 94% of patients are satisfied with ISTCs, compared with 91% for the NHS. The way to improve the NHS is to up the pace of reform, going further and faster and bringing in more private providers in order to genuinely make the NHS fit for the 21st century.

Mark Smith
Chairman
NHS Partners Network and Group strategy director
Mercury Health
London

News guidelines

SIR – You said that the BBC "will not, however, start referring to terrorism and terrorists" ("Walking the line", June 24th). This is wrong. The latest BBC guidelines advise BBC journalists to give careful thought to the use of language, but to be quite clear, do not ban the words "terrorist" or "terrorism".

Adrian Van Klaveren
Deputy director, BBC News
London

Right ho

SIR – Your article on internet search engines refers to Jeeves as a (I do not even want to write the word, but must) “butler” (“The un-Google”, June 17th). There will be uproar in the Junior Ganymede Club! A moaning will poison the air above P.G. Wodehouse's grave! Questions will be asked in Parliament! Jeeves was, and always will be, a “gentleman's gentleman”. No doubt he would forgive you with a withering irony. I do not know if I can bring myself to do as much.

Budd Whitebook
Washington, DC

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Afghanistan

A geographical expression in search of a state

Jul 6th 2006 | KABUL AND PUNJWAI
From The Economist print edition

Getty Images

And a NATO force preparing to head south, maybe to fight the Taliban, to eradicate drugs or simply, as the politicians say, to provide some security

UNDER a shady awning in the bazaar of Punjwai, in southern Afghanistan, one searing morning last month, the men were smoking a hookah and chewing over some bad news. A few days earlier, after a week-long battle between Canadian soldiers and Taliban fighters, America had launched air strikes on a nearby village. At least 35 civilians had been killed, along with dozens of insurgents. Yet some of the hookah-smokers were reluctant to criticise the killers. “America came to help us and I support them,” said Ghulam Farooq, whose son had been killed in the battle. All of them, however, slated the government of President Hamid Karzai for failing to bring any benefit to their village. “Nothing has improved,” said Abdul Karim.

Afghans have a poor record of welcoming foreign troops to their country—especially the pale-faced Christian sort. Yet they have been surprisingly forgiving of the latest clumsy intervention, spearheaded by a 26,000-strong American-led coalition force and 9,000 NATO-led peacekeepers. They did not rise against America's invading force four years ago, as some feared they might. In elections in 2004 and 2005 they gave rousing support to the international effort to rebuild their shattered country, by voting in Mr Karzai, America's favourite, and by electing a parliament, albeit with a much lower turnout. At each step, it seemed, the harbingers of gloom were confounded. Then came the past few months. They have been dreadful.

With the spring thaw, the Taliban and a couple of associated insurgent groups re-emerged from their sanctuaries either side of the border with Pakistan far stronger than anyone had predicted. In the 1990s, these Islamic “students” had risen to power, ruled the country with uncompromising ferocity, taken al-Qaeda to their bosom and then, after September 11th 2001, found themselves overthrown by an American-led coalition. But America's attention soon turned to Iraq. Over 2004 and 2005, in the absence of adequate foreign troops or a functioning state, the Taliban crept back into many parts of Afghanistan's south and south-east.

This year they came with fresh arms and ambitions. Mullah Dadullah, the Taliban's operational commander, claims to control 20 districts of southern Afghanistan, the Taliban's heartland, with 12,000 fighters. In fact, his men cannot hold any ground against coalition troops, and officials say their fighters number no more than 6,000. But with the coalition's men spread thinly, even after the deployment of

6,000 Canadian, British, Dutch and Romanian troops in the south, the mullahs loosely control much of the four southern provinces much of the time.

Across the south, the Taliban dish out Islamic justice in *sharia* courts. Even in the central province of Daikundi, the extremists held a public execution in May. Farther south, in Helmand, where the British are deployed, the Taliban man roadblocks in the Sangin valley. Six British soldiers have been killed there in the past three weeks. The Americans have tried to make Zabul into a paragon of an orderly southern province, picking competent locals to run it, sending 1,000 soldiers to the capital, Qalat, and spending $17m on development projects. Yet just outside the city, and in the outskirts of each district's main town, the Taliban operate with impunity. “The courts are corrupt, so the people go to the Taliban for justice. They control most of Zabul,” says Mullah Abdul Salam Rocketi, a local member of parliament and former Taliban commander. Like most southern MPs, Mr Rocketi, who earned his nickname from his proficiency with rocket-propelled grenades, dares not visit his constituency, for fear of assassination.

Over 1,100 people have been killed in Afghanistan in the past two months, mostly Taliban fighters, mown down from the air. An American helicopter unit, Task Force Knighthawk, based in Kandahar, fired over 31,000 rounds and 1,600 rockets in three months this year. Since 2001 a total of 400 coalition and NATO-led troops have been killed, half of them in the past 18 months. As in Iraq, more and more have fallen victim to remote-controlled bombs and suicide attacks. It was always said of Afghans that they were not the suicidal type—until, in a dozen blasts last year, it turned out that they were. Arabs, Central Asians and, especially, Pakistanis have also blown themselves up.

Fortunately, their efforts have had limited success. But the Taliban seem unconcerned about their own losses. They have recently readopted the tactic of massing several score of their fighters in ambushes, knowing that most will be killed.

Driven by drugs

The insurgency is partly financed by sympathisers in Pakistan and the Middle East, but largely by the Western consumers of Afghanistan's drugs. Opium production has expanded hugely, especially in the Taliban's southern heartland, signalling a risible failure for the British-led attempt to end it. Last year's crop was worth $2.7 billion at export, or 52% of GDP. The opium harvest that ended last month has set new records. The United Nations says poppy planting increased by 20% this year. In Helmand, the biggest opium-producing province, the day rate for an opium harvester has been $25—twice last year's wage.

Flush with dope bucks, the Taliban are buying guns, especially from their old foes in the Tajik-led Northern Alliance (supposedly America's ally). Using mountain paths opened during the anti-Soviet *jihad* of the 1980s, some ex-mujahideen smuggle the guns to the insurgents through the Pakistani region of Chitral. The weapons came in by the same route two decades ago, when they were sent by America to kill Soviet conscripts.

Even where there is no insurgency, Afghanistan is becoming more dangerous. Twenty-three aid-workers have been killed this year, all but one of them in the relatively tranquil north and west. In Kabul, where the NATO-led force is based, a gang in police uniforms recently launched a midday bank robbery.

Disillusionment with Mr Karzai's government, which includes alleged drug-traffickers and war criminals, is

spreading like dysentery in a Kabul slum. In Gardez, capital of south-eastern Paktia, 100 Pushtun elders gathered last month to discuss worrying local insecurity. In 2004 they had ensured that their tribes voted to a man for Mr Karzai. Summing up the new mood, Rasul Jan, a black-turbaned elder, said: “Let God remove Karzai today—and America give us someone different.” After the Punjwai bombing, Mr Karzai visited the southern capital of Kandahar, his home town, to apologise to the tribal elders. According to one who attended the meeting, the elders warned the president that in the event of a repetition they would exhume the bones of his father from Kandahar's soil.

More happily, most Afghans still welcome foreign help. But not all. On May 29th, after an accident in which an American army jeep killed five people, several hundred locals rampaged through Kabul, looting and burning the offices of foreign businesses and aid agencies. American troops were accused of shooting into the mob, causing the deaths of at least some of the 25 people killed in the riot. Mr Karzai, it is said, feared that former Northern Alliance commanders were attempting a coup. He has rehired the most powerful of them, Mohammed Fahim, as his adviser.

All this no doubt delights the world's top three fugitives: Osama bin Laden, his deputy Ayman al-Zawahiri, and Mullah Mohammed Omar, the Taliban's one-eyed leader. They have distributed a spate of video- and audio-taped messages recently, celebrating the mayhem, and predicting more of it. In their predictions at least, diplomats in Kabul agree with them.

The reconstruction effort has had some solid successes: 5m Afghan children now go to school, 70% of the population now receives basic health care. And in the bazaars of Kabul, Mazar-i-Sharif and Herat the trade is brisk. But many people are disappointed, in part because of the unrealistic hopes raised by foreign and local politicians at elections. Only 6% of Afghans have access to electricity, little more than in Taliban days. Many of the 3m refugees who came home after the Taliban were toppled feel particularly let down. They live in wretched conditions, their hovels creeping ever higher up the rocky slopes round Kabul as the garish mansions of the new drug lords spring up far below.

Poverty helps the Taliban. In Musehi, an arid and conservative district of Kabul province, Ghulam Farooq, the local director of education, who has often received death threats, explains what he is up against. To find work, local men may spend $2 each on a shared taxi to Kabul, where a day's labouring earns $3. Alternatively, the Taliban, who come touting for labour nightly, may pay them $50 to fire a grenade at foreign troops. The Taliban carry out regular attacks.

Mr Farooq is proud of Musehi's six new schools. But measuring progress in a country as broken as Afghanistan is difficult. The economy is expected to grow by 10% this year. It would be more, if the proceeds of drug-smuggling and gun-running were factored in. Growth is good, but it will have to be sustained for many years before most Afghans feel the benefits. More than half are impoverished. The government's domestic revenues, of $350m last year, cover half the operating budget and none of the development budget. The rest comes in aid, if it comes at all. America has halved its development assistance to Afghanistan this year, to $622m. Increasingly, analysts in Kabul are coming to doubt whether the country can become stable and reasonably self-sufficient before its people lose patience, or foreign donors lose interest.

Success will be elusive without greater efforts from Western well-wishers, never mind Afghanistan's leaders and the Pakistanis next door. The West seems to have woken up. Plainly spooked, Condoleezza Rice, America's secretary of state, visited Kabul ten days ago, promising: “We are not going to tire. We are not going to leave.” The foreign deployment now under way in the south seems to support this, even if it has the air of trepidation about it.

As in Iraq, America has had too few troops in southern Afghanistan. In Helmand, a province the size of West Virginia, it had 100 soldiers. Many allied countries have also failed. Timorous European members of the coalition have refused to send troops to dangerous parts. Goaded into dispatching a few hundred peacekeepers to northern and western Afghanistan, they shackled them with tight rules of engagement. German troops were forbidden to carry other countries' soldiers in their helicopters. The NATO force, which was conceived to fill a brave new role for the alliance, has thus tended to reflect the weaknesses of multilateralism, and a weakening of transatlantic relations.

Reuters

Thinking of staying here long?

The southern troop deployment, with participants from Canada, Britain, the Netherlands and Romania, is partly designed to put this right. The force will come under NATO command on August 1st. “It's clear that this is the alliance's most important operation yet,” says General James Jones, NATO's American commander. By the end of the year, NATO is supposed to absorb most of the remaining coalition force, and then to take charge of the whole country. America will, however, keep a few counter-terrorism troops, to be used if it should stumble on Mr bin Laden.

The spectre of failure

That is the plan, assuming the southern deployment succeeds. It may not. Led by a dynamic British soldier, Lieut-General David Richards, the NATO force will attempt a classic counter-insurgency strategy, used successfully by the British in Malaya in the 1950s. It involves establishing secure areas, known as inkspots, as bases from which to inject aid into the surrounding region. Thereby it seeks to win the love of the locals, among whom insurgents hide. When tried by the Americans in Iraq, the strategy failed. If it is to succeed in Afghanistan, as conceivably it may, it will require risk-taking and generous resources.

Doubts have been aired about the willingness of the Dutch to let their troops fight. Yet even before the 1,700-strong Dutch contingent has been deployed, to Uruzgan, British politicians are sounding windy about further casualties. As for resources, the small American garrisons that the coalition troops are replacing had on average $6m a year to spend as they wished—and much more than that in Zabul, where they brought little order. British troops currently have no such backing, though Britain's development agency is trying to find money for them. It will take much more support, and perhaps quite a few casualties, to secure the south.

Let them grow apple pie

Failure would carry a heavy cost. Before the recent harvest, fields of nodding opium poppies stretched for over 300km (nearly 200 miles) either side of the Helmand river. If the south is not tamed, and its fields instead planted with wheat, the Taliban, al-Qaeda and the drug barons with whom they are in cahoots, will be left with a large money machine.

Not that NATO's soldiers can change the basis of Afghanistan's economy; nor will they try to. NATO troops will not eradicate poppies, out of a reasonable fear that this would undo all their efforts to win local support. Yet they will provide security for the government to attempt eradication, which may come to the same thing.

Poppy-growing will end only when Afghans can earn money some other way, when junkies in rich countries stop taking dope and when, perhaps, Afghanistan has robust enough institutions to enforce its laws. NATO'S forces and their civilian allies can, at best, improve the conditions for economic development. At worst, they will squabble ineffectually to impose policy on a country they do not rule. Last year America spent $120m on training a paramilitary eradication team. Distracted by landmines and rocket attacks, it destroyed 250 hectares (625 acres) of poppies—leaving 104,000 hectares. This year it has destroyed 2,500 hectares. Quite apart from the wisdom of wrecking Afghans' livelihoods, this is poor

value for money.

Afghanistan is still a long way short of being a functioning state. So far the most significant progress is political. Mr Karzai is a legitimate leader, even if he is an increasingly unpopular one. The parliament at least represents Afghanistan's local leaders, even if it is an unruly mess. And it is. Over half of its members are said to be religious extremists or militia leaders. When, not long ago, a rare liberal member, Malali Joya, made a speech denouncing crimes committed by the mujahideen, she was pelted with water bottles and threatened with rape. Since its creation seven months ago, the parliament has passed no laws, but it has been quite an effective check on Mr Karzai. For example, it rejected his nomination for chief justice, an Islamic extremist and incompetent to boot.

Of Afghanistan's other institutions, there is even less good to report. The 35,000-strong army, under American stewardship, is the best of them. But it is corrupt, indisciplined and prone to desertion, especially in the violent south. The police are much worse: many officers are semi-trained, others are impostors whose basic pay of $20 a month, or nothing, buys little honesty. Germany was supposed to retrain the police. It has brought a few hundred officers up to Western standards, but largely neglected the other 55,000. America has instead tried to train them. But, as in Iraq, its efforts have been expensive and poor. Seema Samar, the head of Afghanistan's human-rights commission, says the police have improved a bit in the past two years: “Everyone had to be tortured before. Now they do torture, but not everybody.”

Asked to approve a list of 86 new police chiefs, Mr Karzai recently horrified diplomats by inserting the names of 13 semi-educated former warlords with alleged links to organised crime. The most controversial, Amanullah Guzar, the new police chief in Kabul, is said to have been involved in the kidnapping of three UN workers in 2004. He denies it.

If foreign donors cannot embolden Mr Karzai to undertake more radical reform, Afghanistan's reconstruction will continue to suffer. The donors find his reticence maddening. Yet it is to some degree understandable. Mr Karzai could be excused, after all, for not quite believing Ms Rice's promise. As the coalition troops prepare to march south, despite the rising violence, America is preparing to withdraw 3,000 men and as many machines as possible. By cutting development aid, it has signalled its diminished interest in Afghanistan. And even if NATO quells the Taliban insurgency in Afghanistan, it will not defeat it—because it is based in Pakistan, which has deployed 80,000 troops along the border, apparently to no effect.

Nor, even if NATO performs brilliantly, is it likely to make the huge changes southern Afghanistan needs in order to win stability. Britain has committed its troops to Helmand for three years, and will spend £38m ($55m) there. Yet Helmand is remote and arid, with almost no infrastructure or government, and no significant commerce besides narcotics. It is likely to stay largely that way, British or no British.

This knowledge no doubt underlies Mr Karzai's reluctance to upset the opium-cart. He seems resigned to ruling Afghanistan as it was ruled before war descended: through weak, centralised institutions and by issuing patronage to local strongmen. Last month Mr Karzai floated a plan to authorise pro-government militias in several southern provinces—in effect, rearming some of those disarmed in a $150m UN programme. Some of their proposed commanders are unfit to hold a responsible post anywhere at all. But yet again, it is possible to see Mr Karzai's point: Kabul carries no clout at all in those places. If Western countries are really serious about building a state whose writ runs across the entire country, it will be a long haul indeed.

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About sponsorship

Baseball

Playing hardball with drugs

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From The Economist print edition

Corbis

Can America's national game solve its cheating problem?

MORE American couch potatoes than expected have been gripped by the World Cup. But the soccer will be forgotten on July 11th when Pittsburgh hosts the annual mid-season showcase of America's summer game, baseball.

Usually, the All-Star Game is a chance for the top stars of America's two baseball leagues to relax and hit home runs galore while fans debate whether the second half of the season will see the New York Yankees overtake, yet again, their fierce rivals, the Boston Red Sox, or whether the season's surprise package (this year, the Detroit Tigers) will stay the course. Next week, however, fans are more likely to be speculating about which of the heroes they voted on to the All-Star teams is a drug-using cheat.

The first half of 2006 has been bad enough for the image of baseball, which was already suffering from years of allegations of rampant use of steroids and other performance-enhancers. Before this season began, Bud Selig, the baseball commissioner, launched an inquiry into past steroid use in baseball, chaired by George Mitchell, a former senator with a long record of wrestling with famous problems, including Northern Ireland.

The inquiry was triggered not least by a book, “Game of Shadows”, which made it increasingly hard for baseball's top officials to ignore allegations of steroid use by the San Francisco Giants star, Barry Bonds. Even so, they then had to watch as Mr Bonds beat the lifetime home run tally (714) of one of the game's icons, Babe Ruth, to become the second ranking home-run-hitter ever. Mr Bonds, who denies the allegations, even went out of his way to maintain a high public profile, launching a reality-TV show, “Bonds on Bonds”, on the ESPN sports network.

Investigators are now trying to establish whether Mr Bonds committed perjury when he denied using steroids to a grand jury investigating the Bay Area Laboratory Cooperative, a maker of nutritional supplements. Investigations into BALCO, which began when a trainer sent a syringe of a previously undetectable steroid to America's Anti-Doping Agency, have cast doubt on the achievements of stars in sports ranging from athletics to American football, as well as other big-hitting baseball players.

But last month things got worse. It emerged that Jason Grimsley—formerly of the Arizona Diamondbacks, the Yankees and a string of other teams—had admitted using human growth hormone to boost his performance. He had also been singing like a canary, naming several other top stars as fellow abusers. He had stopped co-operating with investigators only when they tried to use him to nail Mr Bonds.

That Mr Grimsley is a cheat is not especially surprising. He was arguably best-known for having climbed through the ceiling of the umpires' room to switch a corked bat confiscated from another big-hitter, Albert Belle, for a legal one. However, the fact that Mr Grimsley is a pitcher, not a stereotypical steroid-inflated hitter, suggests that cheating may be even more widespread than was feared.

More troubling still, Mr Grimsley was caught only as a result of investigators tracking a supply of human growth hormone, and not through the supposedly tough new testing regime recently introduced into baseball. Indeed, Mr Grimsley has said that he has used nothing but human growth hormone since the new tests came in, because the tests would not detect it. In part, this is because baseball tests only urine, not blood, and there is no urine-based test yet for human growth hormone, though the baseball authorities are funding efforts to develop one.

The World Anti-Doping Agency (WADA), which administers drug tests in many sports, thinks this is evidence that baseball is still soft on drug cheats, even if its new testing regime and penalties (which include a 50-game ban for a first offence) are no longer a joke. On the other hand, the new blood test for human growth hormone, introduced by WADA with much fanfare at the 2004 Olympics, has yet to identify an abuser, perhaps because it does not work—a possibility that should worry anyone who wants to stop drug cheats in any sport.

Baseball introduced a tougher regime on drugs only after a severe dressing-down during hearings in Congress last spring. Congress may intervene again; Senator John McCain of Arizona wants players to be required to give blood samples now that would be kept until an effective test is developed.

Curiously, baseball players seem largely not to care. When Mr Bonds passed the Babe's home-run record, he was applauded even by wholesome stars such as every mother's perfect son-in-law, Derek Jeter of the Yankees. Mr Jeter added that he was “tired of hearing all the accusations and no one's proven anything.”

The fans seem to agree. When Mr Bonds hit his 715th home run, a few boos were soon drowned out by wild cheering. Despite all the bad publicity, attendances at most stadiums have never been higher. Which prompts the most shocking thought of all: although many baseball fans say they hate drug cheats, such concerns may pale beside their desire to watch games that are exciting.

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New Mexico

Firmly on the map

Jul 6th 2006 | ALBUQUERQUE AND SANTA FE
From The Economist print edition

A dynamic governor and a rising oil price make all the difference

THE sleepy one-street township of Madrid is looking glorious. Flowers tumble out of their boxes, old-fashioned petrol pumps stand near the blue-painted post office and bright banners proclaim the “Madrid Chile Festival”. Yet the flowers are mostly plastic, the petrol pumps are fake and there is no chile festival: the make-believe is all for a forthcoming Disney film, “Wild Hogs”, starring John Travolta.

Corbis

Soon to be a Branson spaceport

At the Mine Shaft Tavern, “longest stand-up bar in New Mexico”, Madrid's drinkers affect not to notice. Yet they and the rest of the state might do well to raise a toast to Bill Richardson. Since his election four years ago, New Mexico's governor has sufficiently appealed to Hollywood to bring some 60 productions to the state and—at least according to the governor's bean-counters—to generate thereby economic activity of around $700m.

Film is one of four sectors targeted by the Richardson team. The others are aviation, renewable energy and high technology (ie, putting to commercial use the creativity of scientists at the federal government's Los Alamos nuclear laboratory and Sandia National Laboratories). Soon there will be a fifth: Mr Richardson has his eye on financial services, which explains the dark-suited types who now troop through his office in Santa Fe. One incentive being dangled before Morgan Stanley and others is exemption from the state's gross-receipts tax. The strategy is simple: New Mexico offers outside investors an irresistible carrot of tax-cuts, cheap land, beautiful scenery and a relatively low cost of living. As the Democratic governor puts it, with a wry nod at Republican ideology, “Supply-side economics has worked.”

So, it might be added, has the rising price of oil and gas. New Mexico is America's fifth-largest oil producer, with the fourth-largest reserves of oil and second-largest reserves of natural gas, and the result is a comfortably balanced state budget and $500m in reserve.

Given the state of the world oil market, that happy situation is unlikely to change soon. But it still makes sense for New Mexico to be more than just a provider of raw materials (it also has plenty of uranium, gold, silver, copper and coal). If that means doling out tax incentives, so be it. Since taking office, Mr Richardson has cut personal income-tax rates by 40%, halved the capital-gains tax and provided generous tax credits to job-creating businesses.

Are the carrots proving their worth? In Albuquerque, Vern Raburn, a dotcom veteran whose obsession with flying dates back to his teenage years, is about to get the proper certification for his Eclipse “very

light jet". What induced Mr Raburn to come to New Mexico, as opposed to Arizona or Texas, was New Mexico's willingness to exempt Eclipse from the gross-receipts tax, provide free land for the assembly plant and give a 20-year relief from sales and property taxes. In addition, the state invested $20m of taxpayers' money in Eclipse, making it the project's largest investor (the second-biggest is Bill Gates). If all goes well—Mr Raburn has over 2,500 orders and reckons he can sell some 750 Eclipses a year—his project will create, directly and indirectly, thousands of jobs in the Albuquerque region.

A similar faith in the future has persuaded the state to put up $100m of taxpayers' money towards building a $225m rocket launcher near the White Sands missile range, in the south of the state, so that by 2010 Britain's Sir Richard Branson and his Virgin Galactic can start blasting adventurous tourists into space. In theory, by 2020 the "spaceport" will have created more than 3,500 jobs and generated $750m in economic activity.

Somewhat closer to earth is the Mesa del Sol "master planned community", now being developed as a public/private partnership just south of Albuquerque's airport and right next to the Kirtland air force base. The idea is to provide a mix of residential and commercial space, with the emphasis on hi-tech. For example, the first tenant, Advent Solar, makes photovoltaic cells with a process invented at the Sandia laboratories.

Add more such companies, and over the next 25 years Mesa del Sol is supposed to become a small city of 100,000 residents, feeding some 50,000 jobs. Meanwhile, keep your fingers crossed that Intel, with some 5,600 employees at its plant in the Albuquerque suburb of Rio Rancho, remains loyal: with an economic weight in the state of around $1 billion a year, its impact is equal to around one-fifth of the budget's general fund.

But where does all this leave Governor Richardson? Not everything in New Mexico is as wonderful as the scenery that ranges from snow-capped mountains to dune-filled desert: rates of drunk-driving, crime and drug abuse are all above the national average, and, at around 18%, the proportion of the population living in poverty is America's highest. Even though New Mexico, thanks to all those Los Alamos and Sandia scientists, can boast one of the nation's highest concentrations of PhDs, its public schools are nothing to boast about and over a third of high-school students fail to graduate.

On the other hand, it is hard to blame Mr Richardson for these flaws. Each year he pumps more money into education, and the drive against alcohol and drug abuse is both fierce and constant. Moreover, in a border state where more than 43% of the 1.9m residents are Latino (many descendants of the original Spanish settlers), he has proved singularly adept at dealing with the tricky issue of illegal immigration. By declaring a state of emergency last year along the border, he has allowed state money to be directed at border enforcement and "blunted" any potential uproar (though in New Mexico it was always much less than in Arizona and California) before it could get too strident. At the same time, he has continued what he calls his "humane policies" of giving driving licences to illegal immigrants and allowing them to benefit from state-resident tuition fees at New Mexico's colleges.

All this means that Mr Richardson is a virtual certainty for re-election in November to a second term. But what then? The obvious observation is that this burly former ambassador to the UN, former energy secretary and now chairman of the Democratic Governors Association is a large fish in a small pool. In other words, Mr Richardson, who was often mooted as a plausible vice-presidential candidate in 2000 and 2004, could well look in the mirror and see himself as a presidential candidate in 2008.

Since his mother is Mexican, he could surely count on the Latino vote, the fastest-growing in the political spectrum. The problem would be getting enough of the Anglo vote. As one ex-serviceman, a Mexican-American, put it in an Albuquerque bar: "He's a Mexican, and they'll never elect a Mexican." In the meantime, he has at least put New Mexico on the map.

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New Jersey

All bets are off

Jul 6th 2006 | TRENTON
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A deep fiscal disagreement shuts down government—and the casinos

AP

Corzine wants his tax increase

THE home state of Bruce Springsteen and Tony Soprano has long swarmed with corrupt politicians. At least three former mayors have been in jail. In June the ex-mayor of Atlantic City was sentenced to 30 months in prison for tax evasion. Two summers ago James McGreevey, then governor, stepped down amid rumours that he was about to be sued for sexual harassment. Perhaps this is why New Jersey's legislature does not know what to make of Jon Corzine, its no-nonsense and seemingly fiscally responsible new governor.

Mr Corzine, a former head of Goldman Sachs, has been in office only since the beginning of the year and is already fed up with the state's appalling finances. New Jersey is one of just a handful of states that is running a serious deficit, of $4.5 billion. Its credit rating is dismal. The state has been operating at the brink for years, notes Ingrid Reed of the Engleton Institute for Politics at Rutgers University. Hoping to close the deficit gap, Mr Corzine has already cut $2.5 billion in spending. His $31 billion budget plan proposes raising the sales tax from 6% to 7% to boost state revenue. His fellow Democrats, who control the Assembly, oppose the increase.

When the state legislature missed its budget deadline for the third time in five years, Mr Corzine ordered a government shutdown, a first for New Jersey. According to the state's constitution, without a balanced budget in place the state may not spend money. All non-essential functions of government stopped on July 1st. This means that 45,000 people—over half of all state employees—are on furlough. Only essential personnel such as state police, prison guards and child-welfare workers are still working. Road works and car inspections have been halted and most courts have been suspended. State parks and beaches, though opened for the July 4th weekend, closed on Wednesday morning.

Atlantic City's 12 casinos have also been forced to close. The state's gambling inspectors are considered non-essential employees. They keep tabs on the collection, counting and certification of winnings. Without them, no dice. The Casino Association of New Jersey looked to the courts to try to remain open, but had no luck. Closure will affect 46,000 workers.

Gambling is big money for the Garden State. Many punters question the wisdom of closing casinos, especially as they add $1.3m a day to the state's coffers. Fully 8% of the monthly gross revenues go into the casino revenue fund, which pays for programmes for the elderly and disabled. The lottery, which generates $2m a day in taxes and is the state's fourth-largest tax source, has sold no tickets since Saturday. Horse racing, which also requires monitors, was shut down too.

Mr Corzine, anxious to sort out the mess before everyone went back to work on July 5th, ordered lawmakers to labour through the holiday, and slept in his own office on a camp bed. Richard Codey, president of the state Senate and a former governor, has pitched a compromise plan that Mr Corzine favours. It would use half the $1.1 billion raised by the sales tax to help offset New Jersey's property taxes, which are the highest in the country and are in need of reform. Opponents have rejected the proposal and are said to be working on their own plan, which may entail an income-tax increase. As *The Economist* went to press, the two sides were still struggling to reach a deal.

According to an Engleton Institute poll, 91% of New Jersey residents know their state is in trouble.

Almost half say taxes are the biggest problem. Because of that, they are fairly supportive of the governor and his steadfastness (though some, no doubt, would like the former Wall Street billionaire to whip out his personal chequebook and take care of the problem himself). The four-day Fourth of July weekend cushioned the blow of the shutdown; it has not affected too many people yet. But the longer it lasts, and the longer the slot machines are quiet, the less New Jerseyans are likely to “fuhgeddaboudit”.

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Offshore oil and gas

Drill-seeking

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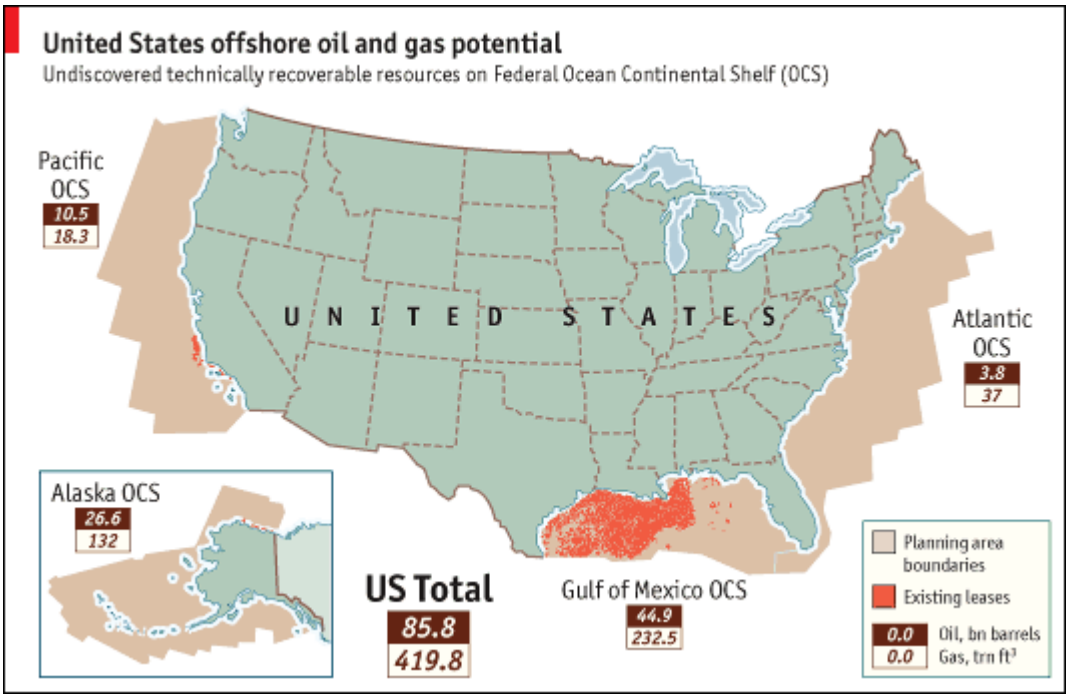
From The Economist print edition



Congress thinks of allowing more oil-prospecting off America's coasts

IN 1896, a Californian entrepreneur drilled the world's first offshore oil well from a jetty stretching out into the Pacific near Santa Barbara. Nowadays the waters off California and most other states are off-limits to oilmen, thanks to a series of laws and executive orders that bar the federal government from issuing new licences for offshore exploration anywhere but in the Gulf of Mexico and Alaska. That puts roughly 85% of America's territorial waters out of bounds. But as concern about America's dependence on imported oil grows, and the price of the petrol (gasoline) derived from it soars ever higher, Congress is beginning to reconsider the restrictions.

Last month, the House of Representatives passed a bill that would allow immediate drilling in areas between 100 and 200 miles from shore, and would give coastal states the authority to permit drilling closer to land. To encourage them to do so, the bill also awards states a much bigger share of the royalties from offshore oil and gas production, most of which currently go to the federal government. The Senate must now consider the bill, along with another, more modest, measure to allow drilling in a hitherto unexploited area of the Gulf of Mexico.

Roughly 30% of the oil America produces, and 20% of the gas, comes from offshore fields, most of them along the coasts of Texas, Louisiana, Alabama and Mississippi. The government suspects that a higher proportion of the oil and gas yet to be discovered will be found offshore, since prospectors have probed the dry land pretty thoroughly. The lion's share is thought to lie in the areas already open to exploration. But the rest of the seabed may still contain as much as 19 billion barrels of oil and 86 trillion cubic feet of gas—enough to keep America going for a few years.

That is not to be sniffed at. But opponents of offshore drilling point out that the extra oil would only slightly diminish America's dependence on imports, and do nothing to end America's addiction to oil in general. Furthermore, they argue, an expansion of offshore production would dramatically increase the risks of an environmental disaster such as the one that struck Santa Barbara in 1969, when an undersea

well blew its top, releasing a slick that spread over 800 square miles of ocean and soiled 35 miles of coastline.

Lobbyists for the industry retort that there has been no big leak from an offshore well since. (Tankers, such as the *Exxon Valdez*, are another story.) They point to a study by the National Academy of Sciences that attributed 62% of the oil found in seawater to natural seepage, 32% to leaks from shipping and run-off from land, 4% to spills from oil tankers and around 1% to faulty offshore rigs and pipelines. Even during last year's hurricanes in the Gulf of Mexico, the big spills were from storage tanks onshore, not offshore facilities.

Congressmen from sunny places such as Florida and California, worried about tourism, helped to defeat a proposal to expand offshore gas exploration earlier this year. But the latest bill cleverly nods in their direction, by giving states, rather than the federal government, the ultimate say over drilling within 100 miles of their shores. That would allow the greener ones to maintain the current ban, while freeing the more cash-strapped ones to pursue a windfall from royalties.

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The Supreme Court and Guantánamo

What Bush can do, and what he can't

Jul 6th 2006
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Some useful clarifications in the legal murk

THE camp for “unlawful enemy combatants”—as America has termed them—at Guantánamo Bay, in Cuba, is not about to disappear. Last week's ruling by the Supreme Court, declaring that the special military tribunals set up to try suspected foreign terrorists in the camp were unlawful under both the Geneva Conventions and American law, has destroyed its main reason for existing. But the administration has already made clear that it intends merely to “improve” the system, not abolish it.

The court's 5-3 judgment in the case of Salim Hamdan, Osama bin Laden's former driver, is important in at least three respects. It sets limits on the president's claim that, as commander-in-chief, he can do pretty much whatever he wants to protect the American people in time of war. It reaffirms the Supreme Court's authority to preserve the constitutional safeguards of civil liberty, even in wartime. And, perhaps most important, it suggests that all parties to a conflict, including those deemed unlawful enemy combatants, are entitled to at least minimum protection under the 1949 Geneva Conventions.

Hitherto, the administration has argued that the al-Qaeda and Taliban suspects in Guantánamo were not entitled to any Geneva Convention protections because neither of those groups was a signatory to the treaty. Furthermore, they could not be treated as prisoners-of-war because they did not carry arms openly, wear uniforms, or bear any other mark to distinguish them from non-combatant civilians, as required.

Although the Supreme Court agreed that the detainees were not prisoners-of-war, it said that they—and by implication any other non-state combatants in any conflict anywhere in the world—were entitled to protection under the conventions' Common Article 3, which applies to conflicts that occur on the territory of a signatory (as Afghanistan is). Under that article, all detainees must be treated humanely and have a right, if charged, to due process. They may not be sentenced without first being tried by “a regularly constituted court affording all the judicial guarantees...recognised as indispensable by civilised peoples.”

Delivering the court's majority opinion, Justice John Paul Stevens said that this is usually taken to mean an ordinary military court, set up in accordance with a country's normal rules and procedures. “Even assuming that Hamdan is a dangerous individual who would cause great harm or death to innocent civilians...the executive nevertheless must comply with the prevailing rule of law in undertaking to try him and subject him to criminal punishment,” he said. In a dissenting opinion, an incandescent Justice Clarence Thomas protested that the majority ruling “openly flouts our well-established duty to respect the executive's judgment in matters of military operations and foreign affairs.”

In their original form, the military commissions did not even provide for a presumption of innocence or guilt beyond reasonable doubt. Even after they were amended in response to another Supreme Court ruling on Guantánamo two years ago, the accused (and his lawyer) could still have been excluded from part of the hearings and prevented from ascertaining the full evidence against him. Furthermore, even evidence extracted through torture might have been admissible. All this, Justice Stevens said, violated both America's Unified Code of Military Justice and the Geneva Conventions.

In its 2004 ruling, the Supreme Court rejected Mr Bush's claim to be able to hold suspected terrorists indefinitely without allowing them access to the courts. But it did not specify which courts. Under the Detainee Treatment Act, passed last December, the executive sought to bar detainees from challenging their detention in normal civilian courts; they had to apply to a special military tribunal in Guantánamo. An appeal was possible to the federal court of appeals in Washington, DC, but only on a point of law. The executive insisted that the act applied to the 300 cases pending in civilian courts before the act was passed as well as to future ones. The Supreme Court has now ruled that it does not. The expected flood

of proceedings should throw up some further interesting judgments on Guantánamo.

A couple of years ago, Donald Rumsfeld, the defence secretary, was insisting that America would keep “a large proportion of detainees in Guantánamo Bay for many years, perhaps indefinitely”. Even if acquitted of war crimes, they could still be detained until the end of the unending war on terror. Of some 760 suspected al-Qaeda and Taliban supporters who have passed through Guantánamo since it was set up in January 2002, more than 300 have been released. Of the 450 or so who remain, only ten have been charged; the chief prosecutor expects a further 65 will be. What will happen to the rest?

Under growing domestic and international pressure, Mr Bush said recently that he “would like to close the camp and put the prisoners on trial”, but wanted to wait for the Supreme Court's ruling. The court has now stated that the president has the right to hold Mr Hamdan and the other detainees “for the duration of active hostilities”—thus implying that America's struggle against al-Qaeda is indeed a war. Mr Bush's only response so far has been to say that he will work with Congress to make the changes necessary “to give people their day in court”, while promising that the ruling would not “cause killers to be put out on the street”. There are absolutely no plans to move or shut down the camp. More's the pity.

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Florida prisons

Trouble in Tallahassee

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A shootout at a federal prison reveals a rotten penal system

AT 7.30am on June 21st, federal agents showed up at the Federal Correctional Institution in Tallahassee, in Florida. They had come to arrest six prison guards on charges of having sex with female inmates in exchange for contraband. What followed was worthy of a Jimmy Cagney film. Ralph Hill, one of the guards who was to be arrested, began shooting at the agents. In the crossfire Hill was killed, as was William Sentner, one of the agents.

The gun battle was so fast and furious that it was unclear how many bullets were fired, or who killed whom. A team of FBI crime-scene agents was sent immediately from Washington to Tallahassee, and is still investigating. Three of the five guards remain in custody.

Reuters

Damage all round

As Governor Jeb Bush admitted, rather ruefully, Florida does not need trouble in its federal prisons. It has plenty of problems with its own Department of Corrections. Florida prisons are a little like remote feudal villages, where wardens and guards are the lords and the prisoners serfs. Once the prisons get the money they want from the state legislature—and in Florida it is seldom denied—they are mostly left alone to go about their business.

What that business sometimes consists of was revealed by the death of Martin Lee Anderson, a 14-year-old black who was sent to a rural “boot camp” in Bay County when he violated his probation by going for a joyride in his grandmother's Jeep. At the camp, which is run along military lines (with guards yelling in inmates' faces in order to shame or motivate them), the boy was forced to go on a run in January this year. When he said he couldn't finish, six guards began beating him. All this was recorded on a video that was released to the media in February, after the *Miami Herald* had sued to obtain it.

During the investigation of Anderson's death, a batch of e-mails from Guy Tunnell, then chief of the Florida Department of Law Enforcement, were also made public. Mr Tunnell had set up the boot camp where Anderson died. When the Florida Senate Criminal Justice Committee officially requested the videotape of Anderson's death, Mr Tunnell sent his staff an e-mail declaring “Ain't gonna happen!” He resigned shortly afterwards.

In April, students from colleges in and around Tallahassee staged a sit-in outside Mr Bush's office to protest against Anderson's death. By the end of May, the legislature had passed and Mr Bush had signed the Martin Lee Anderson Act, which replaces the camps with education-based juvenile detention centres.

Mr Tunnell was not the only official to leave the prison service under a cloud. James Crosby, the former head of the Florida Department of Corrections (FDC), also resigned in February. Mr Crosby, who was in charge of 59 state-run prisons with around 89,000 inmates (plus another 70 or so smaller detention places), had become the subject of federal and state investigations alleging that he misappropriated state funds and property and was involved in steroid trafficking.

To clean up the mess, Mr Bush hired James McDonough as the new FDC head and gave him a free hand. In his first weeks on the job, several state prison administrators were fired. “We need a professional, ethical situation around here,” said Mr McDonough, laying out three goals: lower recidivism rates,

improved vocational training for prisoners and better training for guards. He also plans to ask the powers-that-be for an increase in the FDC's budget after the November elections.

The federal prisons, however, remain a headache that is harder to deal with. And uncomfortably close: the gunfire battle in June took place only three miles east of the state capitol.

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Lexington

Faith, race and Barack Obama

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There could be far more like him, if gerrymandering vanished

HOW can Americans overcome their divisions? Barack Obama, the son of a lapsed Kenyan Muslim, has some arresting thoughts. On the subject of tackling head-on “the mutual suspicion that sometimes exists between religious America and secular America”, the junior senator from Illinois delivered last week one of the best speeches of his brief career.

He told the story of a doctor who wrote to him when he was running for the Senate in 2004. The doctor said he might vote for Mr Obama, but was repelled by a line on his campaign website promising to fight “right-wing ideologues who want to take away a woman's right to choose”. The doctor wrote: “I sense that you have a strong sense of justice, [but] whatever your convictions, if you truly believe that those who oppose abortion are all ideologues driven by perverse desires to inflict suffering on women, then you, in my judgment, are not fair-minded.”

Mr Obama says he “felt a pang of shame”. The offending words, which he called “standard Democratic boilerplate language”, had been posted on his website by campaign staffers. He had them changed; not because he had changed his mind about abortion, but because he wanted to “extend the same presumption of good faith to others that the doctor had extended to me”.

Concerning the proper role of religion in politics, Mr Obama cautions against extremism of both stripes. Believers cannot abandon what they believe; but in a nation that includes Christians, Jews, Hindus, Muslims, Buddhists and non-believers, “democracy demands that the religiously motivated translate their concerns into universal, rather than religion-specific, values.” Even if all Americans were Christian, it would not be easy to decide which passages of scripture should guide public policy. “Should we go with Leviticus, which suggests slavery is OK and that eating shellfish is abomination?” he asks. “Or should we just stick to the Sermon on the Mount—a passage that is so radical that it's doubtful that our own Defence Department would survive its application?” His elegantly non-committal answer: “Before we get carried away, let's read our Bibles.”

For someone so inexperienced, and whose policies are so ill-defined, Mr Obama is extraordinarily popular. He is only 44, but people are already begging him to run for president. Something about him

fills a gap in American politics: he seems not to be faking when he talks of mending America's religious and racial divides. He is that rare thing, a black politician who addresses the whole nation, not just an ethnic enclave.

That this is rare is tragic. It is also virtually inevitable, given the way the electoral system works. As a senator, Mr Obama is accountable to an entire state's voters. But every other black member of Congress sits in the House of Representatives, where most represent gerrymandered majority-black districts. Unlike Mr Obama, they need not bother appealing to whites. They need not worry about the ideological centre ground, either; since no Republican can win a majority-black district, the crucial contest is the Democratic primary, in which only the most passionate Democrats vote.

Racial gerrymandering has two effects. First, and most conspicuously, it allows some crummy candidates to win by prodding racial sore spots. Cynthia McKinney, for example, a congresswoman from Georgia, seems to believe that every misfortune that befalls her or America is somehow rooted in racism. When she was reproached for punching a policeman in March, the real issue, she said, was that he was a racist for not recognising her. Had he realised her rank, he would not have stopped her as she strode past him. Ms McKinney is also known for her interest in conspiracy theories about the murders of Martin Luther King and the rapper Tupac Shakur, and about President George Bush's supposed foreknowledge of the attacks of September 11th 2001. That last enthusiasm cost her her seat in 2002, a misfortune her father blamed on the Jews. But she won it back in 2004.

The second effect of racial gerrymandering is less obvious, but more important. Most members of the congressional black caucus are fine politicians. But the process by which they are chosen practically guarantees that they cluster near one pole of American politics, to the left of most Democrats and indeed most blacks. This makes them less influential than they should be, even when Democrats control the House. And they find the House a rotten launching pad for higher office, because running in a 60% black district is poor preparation for a statewide campaign. Mr Obama is the only black senator, and there are no black governors.

Why polarisers prevail

Fans of racial gerrymandering argue that the Voting Rights Act of 1965 requires it. This is not obvious from the text, but bureaucrats and judges have read it that way. Fretting that racially separate voting districts depend on the “demeaning assumption that voters of a particular race...think alike,” the Supreme Court has occasionally struck down the most contorted gerrymanders (including, in 1995, the first district in Georgia to elect Ms McKinney). But most pass muster, and the civil-rights establishment is zealous in their defence. There was a big hoo-hah two weeks ago when House Republicans postponed a vote to renew for another 25 years certain emergency provisions of the Voting Rights Act—provisions that had originally been due to expire in 1970. This was wrongly portrayed as a reluctance to renew the act itself, which is permanent.

The right of black Americans to vote is no longer up for debate. Unfortunately, there is not much debate about gerrymandering either. Incumbents like picking their voters, whether they are black, white, Republican or Democratic. The practice may help polarise America along racial, religious and political lines, but it also helps them keep their jobs.

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Mexico's presidential election

The closest of victories

Jul 6th 2006 | MEXICO CITY
From The Economist print edition

AFP

Felipe Calderón, a business-friendly conservative, seems likely to be the next president. Try convincing the loser of that

THERE has never been a presidential election in Mexico quite like it. Late on the evening of July 2nd, as a cold rain fell on the capital, both Felipe Calderón and Andrés Manuel López Obrador appeared before their respective supporters to claim victory, while at the same time saying that they would await the final official count. Three nailbiting days later, shortly before dawn on July 6th, this finally gave victory to Mr Calderón of the conservative National Action Party (PAN). According to the Federal Electoral Institute, with over 99% of the ballots counted, he had won 35.8% compared with 35.4% for his left-of-centre opponent—a gap of around 150,000 votes.

It added to the drama that for much of the count, Mr López Obrador had been ahead, at one stage by 3.7%. That was not sinister: many ballots from Mr Calderón's strongholds were not counted until the end. Nevertheless, Mr López Obrador may well repeat his earlier demand for a recount of each individual ballot, which could take days. “The stability of the country is at stake,” he said.

The saga looks likely to end in the Federal Electoral Tribunal, which has until the end of August to adjudicate any legal challenge to the vote. In the past, the tribunal has annulled state and local elections. But observers of the presidential vote have not reported the kind of widespread irregularities that might justify such a decision.

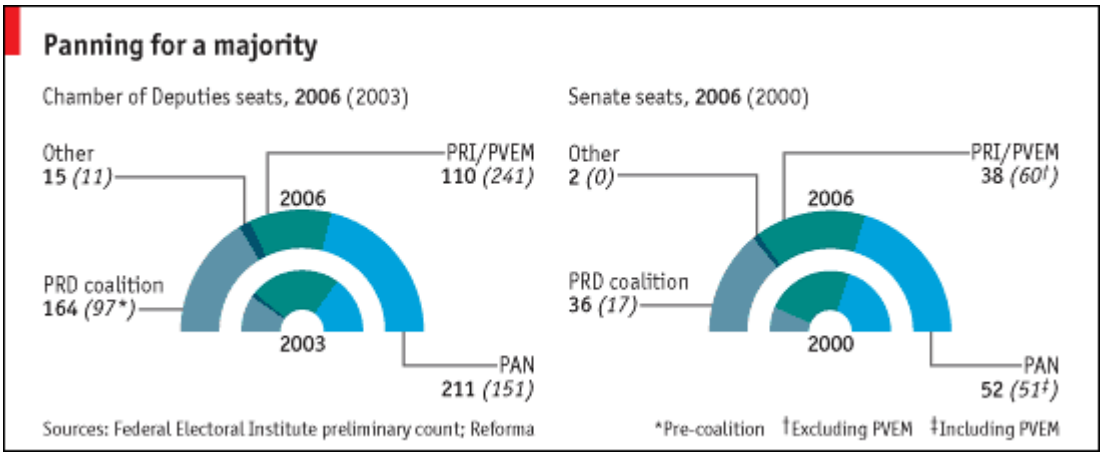
The week began with a preliminary count by the institute showing Mr Calderón ahead by some 400,000 votes. For the official count, ballot boxes were moved from over 130,000 polling stations to 300 district headquarters. The tally sheets attached to the ballot boxes were scrutinised; where irregularities were suspected, individual ballots were recounted.

Earlier, Mr López Obrador's supporters had complained that almost 3m votes were excluded from the preliminary count. On July 4th, Luis Carlos Ugalde, the institute's president, admitted this was so. They had not been counted for technical reasons, such as illegible handwriting on the tally sheets, he said. This was in line with a little-publicised agreement between the parties.

But some of Mr López Obrador's supporters recalled the presidential election of 1988. On that occasion, Cuauhtémoc Cárdenas, a left-wing dissident from the ruling Institutional Revolutionary Party (PRI), was leading until the computers tallying the votes mysteriously crashed. Yet that parallel only serves to show how far Mexico has changed. In 1988, the election and the count were run by the interior ministry, and the government controlled the media. Mexico is now a democracy. The institute became an independent body in 1996. In 2000, it supervised an election that saw Vicente Fox, of the PAN, end seven decades of rule by the PRI.

It is unfortunate that the institute's current governing council does not include members of Mr López Obrador's Party of the Democratic Revolution (PRD), though that is because of partisan manoeuvring in Congress for which the party was partly responsible. But there is no evidence that the institute has acted in bad faith. Mr López Obrador and his aides have eschewed the words “electoral fraud”, of which Mexico had a long tradition under the PRI.

Nevertheless, the country still faces several weeks of uncertainty, assuming the electoral tribunal is brought into play. In the financial markets, the peso and Mexican shares yo-yoed, rising sharply after the preliminary count, and then plunging when its outcome appeared, briefly, to have been reversed. Leading businessmen remained sanguine. Gastón Azcárraga of Grupo Posadas, a hotel group, said that the electoral institutions were “solid”, and were capable of handling the challenge they have been set.



The closeness of the result pointed to the polarisation of Mexico. Mr Calderón's appeal to stability and progress carried the day in the more prosperous north, while Mr López Obrador's class-based denunciation of privilege won him much of the poorer centre and south.

Almost as important as the presidential vote was that for Congress, where Mr Calderón proved to have the longer coat-tails. As a result, the PAN, for the first time, will be the largest party in both houses of Congress (see chart). That was largely because of the collapse of support for the once-invincible PRI, whose unconvincing presidential candidate, Roberto Madrazo, received only 22% of the vote, according to the preliminary count.

The PRI's disarray and divisions provide Mr Calderón (assuming his victory is confirmed) with a big opportunity. A lawyer, economist and former energy minister who studied at Harvard, he looks to have more political skills than Mr Fox. To avoid the legislative gridlock that has dogged Mr Fox's administration throughout its six-year term, Mr Calderón promises to form a coalition government, offering cabinet posts to members of other parties prepared to support him. But first Mexico must get through what could still be a tumultuous few weeks. Survive them, and the country's fledgling democracy can be said to have come of age.

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Bolivia

The Venezuelan connection

Jul 6th 2006 | CARACAS AND LA PAZ
From The Economist print edition

Despite foreign encouragement, many Bolivians are reluctant to move to socialism

OPPONENTS of Bolivia's socialist president, Evo Morales, fear that he wants to turn his country into a copy of the elected autocracy that is Hugo Chávez's Venezuela. That is an outcome that Mr Chávez himself is busily promoting through frequent visits. But Bolivia, a poor mainly Andean-Indian country with many independently-minded grass-roots movements, is not oil-rich, tropical Venezuela. And Mr Morales, in turn, is likely to find it far harder to get his way than Mr Chávez has.

AFP

Now, repeat after me, says Chávez (right) to Morales

So it seemed, at least, in an election on July 2nd for a Constituent Assembly. After he was first elected in 1998, Mr Chávez organised a similar assembly in Venezuela; his supporters won all but a handful of its seats. In Bolivia, Mr Morales's Movement to Socialism (MAS) fared less well. It won 50% of the vote, giving it 135 of the 255 seats. That was well short of the two-thirds majority needed to rewrite the constitution at will—and less than the 54% of the vote Mr Morales won in the presidential election last December. In a simultaneous referendum, the regional autonomy promoted by Mr Morales's opponents was narrowly rejected. But four departments in the east and north, including Santa Cruz, the business capital, voted for autonomy by a wide margin.

These outcomes will oblige the government to learn to compromise. They make it hard for Mr Morales, who had predicted up to 80% support, to copy Mr Chávez in using the assembly to seize control of all branches of the state. And they will make it difficult for him to impose radical change on Santa Cruz.

None of this is likely to deter Mr Chávez from what some Bolivians see as his interference in their internal affairs. On a three-day visit in May, he gave advice on how to draft the new constitution and told the Bolivian army to watch out for plots hatched in Washington, DC. Two of Venezuela's French-built, mid-sized military helicopters, complete with crew, are on indefinite loan to Mr Morales, who used them for the electoral campaign. Petróleos de Venezuela (PDVSA), the state oil company, paid for television transmissions to rural communities of World Cup football matches. An opposition politician has made public documents which suggest that PDVSA paid for campaign publicity, although the government and the company deny this.

Mr Morales has said that Venezuela has promised aid totalling $2 billion (or more than 20% of Bolivia's GDP) since he took office. Venezuela has bought $100m of Bolivian government bonds; it has also given a loan for farming, and 5,000 grants for Bolivians to study in Venezuela.

In April, Mr Morales signed a “Peoples' Trade Treaty” with Mr Chávez and Fidel Castro, Cuba's communist president. Under this, Venezuela is to swap 200,000 barrels a month of subsidised diesel fuel for 200,000 tonnes a year of Bolivian soya. Cuban doctors and teachers, probably paid for by Venezuela, have already started to work on health and literacy programmes in Bolivia; Cuba is also donating medical equipment.

“Only in Cuba and Venezuela can we find unconditional support,” said Mr Morales recently. He complained of “blackmail and threats” from “other countries”. That seemed to be a reference to the United States, which has linked much of its aid to its “war on drugs” and coca eradication.

But the strings attached to Mr Chávez's aid are no looser. It is only available to those who pursue his state-dominated model and reject trade deals with the United States. Even the health and literacy programmes have political overtones. Mr Morales has launched a Cuban-designed literacy scheme intended to reach more than 1m Bolivians.

That might be admirable were it not used for its own benefit by the government. After a recent evening class in La Portada, a poor neighbourhood clinging to the side of the huge canyon that contains La Paz, the capital, Cuban-trained volunteers said that they suspended classes to allow students to attend the closing campaign rally of the MAS. The literacy promoters are also charged with helping the poor register to vote and explaining political issues to them. “Lots of people sign up [for the course],” said Edwin Llusco, one of the promoters, “and then drop out after a couple of classes. They keep asking: ‘what do you want in return?’”

This seems to reflect a deep-rooted suspicion among Bolivians of politicians bearing gifts. “The focus groups show that people like Chávez and the aid programmes,” said Fernando Molina, the editor of *Pulso*, a weekly magazine. “But they are afraid of being deceived.”

Four decades ago, a similar suspicion of radical foreigners in Bolivia put paid to Ernesto “Che” Guevara's attempt to spread revolution in South America. Messrs Chávez and Morales are both admirers of Guevara. But the signs are that they, too, will find it hard to persuade Bolivians to sign up to their revolution.

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Canada

Growing pains

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From The Economist print edition

A great city more troubled than it is cracked up to be

IT REGULARLY tops surveys of the world's most liveable cities. Vancouver's combination of natural beauty and urban sophistication has drawn expatriates from far and wide. But some ordinary Vancouverites wonder whether their increasingly gritty city is worthy of all the accolades.

Nobody can take away its beautiful setting, on a deep harbour backed by British Columbia's coastal mountains. It enjoys the mildest climate in Canada. Far-sighted decisions by the city fathers have endowed downtown Vancouver with a wooded 400-hectare (1,000 acre) waterfront park and a long seaside walkway, and spared it a freeway slicing through the city centre. The presence of residential areas close by has prevented the downtown area from becoming a desert by night.

But many residents are angry at signs of decline in the quality of urban life. Some of the problems are the by-product of success. The city's population is only 600,000, but that of the urban area is 2m. That figure is expected to increase by 50% over the next quarter of a century. One consequence of growth is the highest property prices in Canada, with an average home costing C$518,000 ($466,000). That is forcing young families to distant suburbs, swelling traffic congestion.

Critics claim the authorities have been slow to respond to the city's growth. Only now are suburban railways being built. Opponents worry that a C$3 billion road-building plan by the provincial government threatens to reverse Vancouver's relative success in containing sprawl, and funnel thousands more cars into the city.

But it is the once-pleasant downtown that causes most alarm. Homeless panhandlers yell at theatre-goers, while young addicts deal drugs on street corners. They spill out from the Downtown East Side, an area of decrepit boarding houses, sleazy bars and boarded-up shops infamous for the country's highest rates of poverty and drug addiction. Its ills have resisted decades of expensive government effort.

Four years ago, the voters swept out a conservative city council in favour of a left-of-centre civic party. The new council announced a different approach to drugs, involving harm reduction and treatment as well as enforcement. It set up North America's first safe heroin-injection site, and pressed the provincial government to house the homeless. But it was then overcome by bickering. Last autumn, the voters turned to a re-energised right.

The new mayor, Sam Sullivan, is having little more success than his predecessors. His most promising scheme is an attempt to rein in sprawl by increasing housing density in central areas. But on the crucial issues of drugs and crime, he has made little progress.

Mr Sullivan advocates a heroin maintenance and treatment programme for addicts, of the kind pioneered in Switzerland. This would reduce crime, he says, but it requires federal legislation to implement. He wants a community court to deal specifically with the mentally ill people and drug addicts who cause trouble on the downtown streets. But that would have to be set up by the provincial government. If Vancouver is to continue to live up to its reputation as an urban paradise, it will need a city government with the power, as well as the will, to keep it that way.

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Nicaragua

An untimely death

Jul 6th 2006 | MEXICO CITY
From The Economist print edition

A setback for those who would challenge Daniel Ortega

Get article background

NOTHING upsets an electoral calculus as dramatically as the sudden death of one of the candidates. At least Herty Lewites, the centre-left contender in Nicaragua's election in November, died of a heart attack rather than from an assassin's bullet—a fate not unknown in Latin America. But his death adds to the suspense surrounding one of the most closely-watched votes in Latin America this year. It may increase the chances of a return to power for Daniel Ortega, the leader of the leftist Sandinistas who governed Nicaragua from 1979 to 1990.

Mr Lewites was himself a former Sandinista, who served as tourism minister in the 1980s before becoming a popular mayor of Managua, the capital. He wanted the Sandinistas to become a modern social-democratic force. When he challenged Mr Ortega, whose politics remain those of the hard left, he was kicked out of the party. With other moderates, he formed the Sandinista Renovation Movement.

An opinion poll last month by CID-Gallup placed Mr Lewites third, with 15% of the vote, behind Mr Ortega with 23%. On the face of things, his removal will help Mr Ortega. That is because the right is divided between Eduardo Montealegre, a young businessman who split from the reactionary Progressive Liberal party, and José Rizo, a stalwart of that party.

Mr Lewites will be replaced as the Renovation Movement's candidate by Edmundo Jarquín. He is an intelligent technocrat, but lacks Mr Lewites's record as a vote-getter. So it is just possible that Mr Montealegre, rather than Mr Ortega, might be the main beneficiary of Mr Lewites's demise, which has removed a powerful rival for the centre ground of politics.

Mr Ortega stood in each of the past three presidential elections, losing to the Liberals each time. The Liberals, no less than the Sandinistas, are in need of renewal. They remain in thrall to Arnoldo Alemán, a corrupt former president. The CID-Gallup poll showed that a third of respondents were still undecided. The untimely death of Mr Lewites has robbed the left of its best chance of successful modernisation. Maybe the right will now achieve that first.

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North Korea

Kim Jong Il goes ballistic

Jul 6th 2006 | BEIJING, SEOUL AND TOKYO
From The Economist print edition

A ghastly regime causes headaches for ally and foe alike

IN THE early hours of July 5th—just minutes after the United States had celebrated Independence Day half a world away with a launch of the space shuttle *Discovery*—North Korea grabbed the world's attention with a show of its own. From at least a couple of sites, the reclusive country defied repeated international warnings, including from its sole ally, China, and let fly with six missiles directed towards the Sea of Japan. Among them were short-range Scud-type rockets capable of hitting South Korea, Nodong missiles whose range of over 800 miles (1,300 kilometres) puts them in reach of Japan, and a long-range Taepodong-2 ballistic missile capable, in theory, of reaching Alaska or even the west coast of the United States (estimates of its range vary wildly). A further missile, probably a Scud-type, was launched later the same day. Further launches are promised.

Admittedly, the fireworks, which took place at a time of heavy cover from seasonal monsoon clouds, were something of a damp squib. While most of the missiles splashed into the Sea of Japan, 300 or more miles off the Japanese coast, the Taepodong-2, which American spy satellites have watched since it was hauled on to the launch pad and then filled with liquid fuel two weeks ago, seems to have self-destructed 40 seconds after its launch from the Musudan-ri missile facility in the country's north-east. The missiles were probably unarmed. And though North Korea claimed early last year that it had developed nuclear weapons, it is thought unlikely to have a nuclear warhead small enough to put on a long-range missile.

Still, the launches were calculated to provoke. They break a seven-year moratorium that North Korea reaffirmed bilaterally with Japan in 2002 and last year with the members of the six-party talks (also involving America, China, South Korea, Japan and Russia). These are aimed at getting the country to give up its nuclear-weapons programme in return for aid, trade and security guarantees. North Korea claims it is no longer bound by the agreement.

The tests tear away any pretence from North Korean claims that the Taepodong programme is for the launching of innocuous satellites. And by firing off short- and medium-range missiles as well as the Taepodong-2, North Korea has thrown down a challenge not just to America, but to its neighbours, South Korea and Japan, too. Condemning the launches, Japan called immediately for an emergency meeting of the UN Security Council. President George Bush dispatched his chief diplomat on North Korea,

Christopher Hill, on a hurried visit to Seoul, Tokyo, Beijing and Moscow.

As ever, outsiders are first trying to divine the motives of North Korea's leader, Kim Jong Il. One theory is that North Korea has been feeling hard done by. Attention from America and other big powers, after all, has fallen of late upon Iran (a long-time buyer of North Korean missile technology). Iran is currently being offered enticements to give up its production of uranium, in the form of a lifting of economic sanctions and offers from the West of light-water nuclear reactors. The proffered Iranian deal, indeed, is similar to the one that North Korea signed in 1994 with Bill Clinton's administration, before it was later found out to be reneging on it.

Sanctions followed when the cheating was discovered, and have been tightened. Since last summer, America has cracked down on proceeds from North Korean counterfeiting and on money-laundering from arms and drugs sales. It has frozen North Korean assets in America and forced a bank in Macau to stop acting as a conduit for North Korean funds. These launches, then, might be the regime's desperate attempt to break out of its box. North Korea, says Michael Green of the Centre for Strategic and International Studies and a former administration official, has thrown “the whole chessboard in the air” to see if it can start afresh at the negotiating table, this time with its missiles placed squarely on it. If so, it may have miscalculated.

It's different now

When North Korea test-fired a Taepodong-1 in 1998 over northern Japan and into the Pacific Ocean, the shock pushed Mr Clinton's administration for a while to engage more intensively with North Korea, with which America has no diplomatic relations. In recent weeks, North Korea has again urged America to deal directly with it, rather than through the six-party talks from which North Korea has broken off. Yet times have changed since 1998. In 2002 Mr Bush declared the North Korean regime to be part of the “axis of evil”. The administration now insists that it will not even think of negotiating bilaterally (though two-way contacts under the six-party umbrella would be accepted) with North Korea on any issue until it gives up its programmes for enriching uranium and reprocessing plutonium.

Far from cowing America into backing down, the launch of the Taepodong-2 may reinforce American resolve—the firing was, after all, an abject failure. Though the administration had earlier made clear that it would not follow the urging recently given in the *Washington Post* by William Perry, Mr Clinton's defence secretary, and Ashton Carter, his chief North Korean adviser, for a pre-emptive strike on Musudan-ri, the launches have strengthened the hand of those arguing for a more muscular approach to the North Korean problem. Deadlines for North Korea to dismantle its nuclear programme may be set and, if they are not met, escalating sanctions imposed. This kind of pressure, some think, might even bring down Mr Kim's regime. For now, America is struggling to find an international consensus on what to do next.

A cacophony of views

Among North Korea's neighbours, Japan—offended, first, by the 1998 missile launch and angry since

over the unresolved histories of Japanese citizens abducted in the 1970s and 1980s to North Korea—is the most inclined towards toughness. The government of Junichiro Koizumi immediately barred from Japan's ports the North Korean ferry that plies between the two countries delivering scarce goods and hard currency to the North; charter flights have also been cancelled; and North Korean officials banned from visits. Japan may also block remittances from ethnic Koreans living in Japan.

But, above all, the launches reaffirm Japan's commitment to developing missile defences, based on America's Aegis system at sea and the latest Patriot missiles on land, due to be delivered over the next few months. Parliament recently passed laws speeding up their activation during an emergency. North Korea's actions are driving Japan ever closer to America.

For South Korea and China, North Korea's fireworks are not just a concern, but a deep embarrassment. South Korea has, more than any country, invested capital, political and financial, in its ties with North Korea, even as that investment has helped complicate its relations with America. It warned North Korea off launching missiles, begging it not to “put a friend in danger”. Now, the launches pose a grave threat to the “sunshine policy” of engagement with North Korea that was instigated by Kim Dae-jung in 2000 and carried on by President Roh Moo-hyun. A keener debate about North Korea is bound to ensue. For now, Mr Roh's government has condemned the launches, and says it is “carefully considering” cutting off money, food and fertiliser to the North—though private business ties, it is said, will not be affected. South Korea's annual trade, around $1 billion, along with other goodies, is vital in keeping Mr Kim's regime going.

Yet the tests will presumably embarrass China the most. It has invested much diplomatic energy in efforts to bring together the countries most concerned with Korean security issues. Officials hoped that the six-party talks would demonstrate that China, hitherto reluctant to take centre-stage in resolving international disputes, could play the part of a big power.

Only a day before the tests, China had announced that a deputy prime minister, Hui Liangyu, would visit Pyongyang next week. In the secretive style of China-North Korean diplomacy, no agenda for his trip was revealed. Yet Mr Hui was sure to repeat the concern expressed publicly last week by the prime minister, Wen Jiabao, about the possibility of a test.

North Korea's disregard of China's gently worded pleas suggest that China has not been threatening North Korea in private with dire consequences if it did test. But without China's support in the form of fuel and food supplies, North Korea's economy, already barely functioning, would grind very nearly to a halt. However, China fears that putting economic pressure on North Korea would destabilise the country. A huge flow of refugees into China from North Korea—let alone another Korean war—would threaten stability in China itself.

China will be particularly anxious about Japan's response to the tests. It worries that North Korea's nuclear and missile programmes are being used as an excuse by Japanese politicians to push their country into playing a more prominent security role around the world. China believes that this could fuel military rivalry with Japan. It also worries that Japan's missile-defence systems could undermine the deterrent value of its own long-range missiles.

Still, as the Security Council met in emergency session on July 5th, it looked certain that neither China nor, for that matter, Russia, were prepared to countenance anything more than a mild rebuke of North Korea, and would be most reluctant to side with any attempt to impose sanctions. Such a move towards firmness would represent a huge shift in Chinese policy, and jeopardise what little influence remains for the country closest to Mr Kim's wretched regime. It is worth asking, though, what use that influence is.

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Tibet

High train

Jul 6th 2006 | BEIJING
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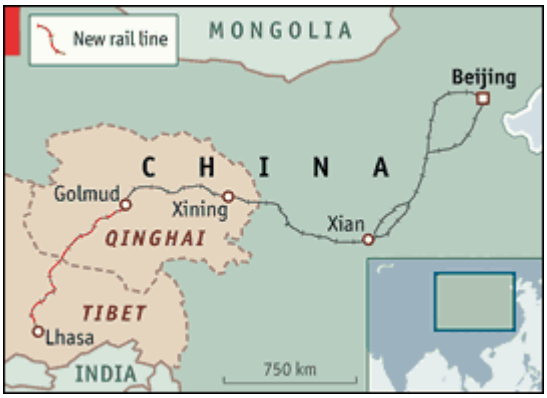
Tibet is linked to the rest of China



AT LONG last, or so Chinese officials have been crowing, the remote Himalayan vastness of Tibet has been connected to the railway network. Modernity, they proudly and not uncontroversially say, has arrived in this backward region in the form of an engineering miracle that has laid tracks on land gripped year-round by ice, a railway line at higher altitude than any other in the world.

The launch on July 1st of the first passenger train services to Lhasa, the Tibetan capital, has been covered by the Chinese media with hoopla only comparable to that surrounding the country's first launch of a man into space three years ago. President Hu Jintao attended the send-off from Golmud in the neighbouring province of Qinghai. As with China's space launches, the foreign media were kept well away (some were grudgingly allowed onto a train that arrived in Lhasa two days after the first one had successfully arrived). Tibetan exiles had been protesting that the train would unleash a flood of Chinese immigrants and destroy their environment and culture. China did not want that kind of coverage on what was, not coincidentally, the Communist Party's 85th birthday.

The 1,142 km (710 mile) Golmud-Lhasa line certainly sounds impressive. It took five years to build, at a cost of an official $4 billion. It traverses oxygen-starved, earthquake-prone terrain that for most of the way is over 4,000 metres (13,120 feet) above sea level and rises to 5,072 metres—not far off the altitude of Mount Everest's base camp. Carriages are sealed and individual oxygen supplies are provided for passengers. About half of the route is across permafrost, which poses particular challenges because of the danger of subsidence caused by melting at the surface in summer. To keep things safely frozen, cooling systems have been installed in the ground. To add to all that, crossing points have had to be built for migratory Tibetan antelopes, an endangered species.

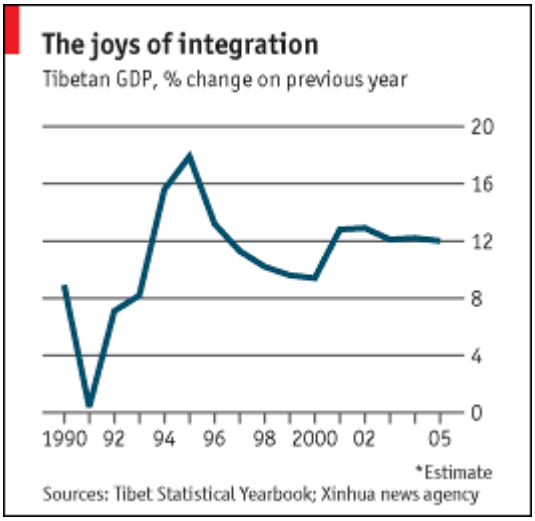
Connecting the last rail-free region of China to the railway network has been a mission of enormous political importance to a leadership bent on quashing any notion of Tibet's separateness. But the railway is unlikely to prove either the economic godsend to Tibet that Chinese accounts portray it as, or the harbinger of mass immigration that critics of Chinese rule in Tibet fear.

Only one or two freight trains a day in each direction are currently planned. Most goods will therefore continue to be transported by truck along the four highways that connect Lhasa to the rest of China. The single-track rail link is circuitous and connects the region to the more prosperous parts of China via hundreds of kilometres of the most backward areas of China's west. A more direct connection would have cost even more to build.

Zhang Chengyao, of the Chinese Academy of Social Sciences, says the railway's main contribution will be to Tibet's tourism industry. The plan is to run three passenger trains a day each way, each able to carry around 900 people. For many, approaching Tibet gradually by train will be preferable to flying in, as it will allow more time to acclimatise and reduce the chance of altitude sickness. But demand could be affected by the limited capacity of the Potala Palace, the historic residence of the Dalai Lamas, Tibet's spiritual leaders. This amazing tourist

attraction has increased its daily ticket quota in response to an expected increase in visitor numbers, but media reports say many travellers will still be turned away.

Even without the railway, tourism—the mainstay of Tibet's economy—has been booming, thanks to growing interest among China's newly affluent urbanites. This has helped to promote average annual economic growth of around 12% in the past five years (see chart). Tibet's government forecasts that the same rate of growth will continue, implicitly suggesting that it does not expect the railway to make a big difference. As the economy grows, migrants will surely continue to come. But many will continue to bargain for cheap deals on buses.



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China's Confucius Institutes

Selling the sage of Qufu

Jul 6th 2006 | TOKYO
From The Economist print edition

China's answer to the Alliance Française

THE old man would surely be proud. This week some 300 representatives, from 35 different countries, gathered in Beijing's Great Hall of the People for the first-ever Confucius Institute conference. This was no philosophical pow-wow, but the world's largest-ever conference on teaching Chinese as a foreign language. Confucius Institutes are China's answer to the Alliance Française, Germany's Goethe Institut and the British Council, and officials hope they will help meet a growing global demand for Chinese-language education.

Confucius Institutes have got off to a roaring start. The first was established in Tashkent in Uzbekistan in June 2004, the 75th in Cracow in Poland exactly two years later. No other Chinese international franchise has done as well. Officially, they are overseen by Hanban, the agency charged by the Education Ministry with promoting the teaching of Chinese overseas. But Hanban's staff of only around 50 can barely cope with the volume of applications, on top of its other duties which include administering Hanyu Shuipin Kaoshi, the standard test of proficiency in Chinese.

So Hanban has let the network grow organically. One key to its success has been the use of joint ventures. The institutes are not run by Hanban, but by partnerships between Chinese universities and local universities in the host country. The host university takes the responsibility for housing the institute; its Chinese partner provides the teaching staff and materials.

A second advantage is the institutes' ability to adapt to local demands, rather than following a set curriculum. Thus, in Nairobi, you can learn how to make Tianjin dumplings, while in Singapore you can sign up for a 14-day study tour of the sage's hometown, Qufu, in Shandong province.

Hanban claims that the primary role of the Confucius Institutes is to teach Chinese, but their name is also evocative of China's former influence in Asia, and its growing presence now. Despite the iciness of official relations between China and Japan, universities there are falling over each other to set up the next institute. Already there are four, the most in any Asian country; the number is set to double by the end of the year. Even in the 21st century, Confucius is proving to be China's best ambassador.

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Israel and Palestine

Getting worse and worse

Jul 6th 2006 | JERUSALEM
From The Economist print edition

The kidnapping of a soldier has prompted a risky new Israeli strategy against Hamas and Palestinian militants

AP

INTO the second week of Corporal Gilad Shalit's hostage ordeal, both sides have turned up the heat. Israel, which responded to its soldier's kidnapping first by bombing bridges and Gaza's power station, sending in the army and arresting dozens of Hamas leaders in the West Bank, has bombed government offices and the Islamic University, Hamas's educational stronghold, in Gaza. In reply, on July 4th, the corporal's Palestinian captors broke off talks with Egyptian mediators. Since then, two Qassam rockets launched from the Gaza Strip have hit the Israeli coastal city of Ashkelon, the farthest these home-made tubes of explosive have ever flown; one crashed into the car park of a school. Hamas's military wing, the Izz ad-Din al-Qassam Brigades, claimed responsibility.

That was a red rag to Israel. It has already said the incursion is not just a rescue operation—extremely risky in any case—but an attempt once and for all to stamp out Qassam fire. Since Israel took its settlers and troops out of Gaza last summer, the rockets have fallen on Israeli towns and villages nearby, causing no deaths but some injuries and a lot of fear. Prolonged Israeli shelling and air strikes have killed dozens of Gazans, both militants and bystanders, but done nothing to abate the Qassams. Plans for both the Hamas leaders' arrests and the army's incursion were, it has emerged, laid well in advance, suggesting that Israel used the kidnapping as an excuse to launch them. Israel, said its defence minister, Amir Peretz, was “on the verge of setting new rules of the game.”

Such as? So far, Israel's response to the Ashkelon rockets is a decision to send troops deeper into unpopulated parts of north Gaza and step up attacks on Hamas buildings and institutions, rather than assassinate Hamas leaders in Gaza, as it has threatened. Neither Israel nor the kidnappers have an interest in further escalation just now. Killing Corporal Shalit would deprive the militants of their only bargaining chip, whereas killing Hamas leaders might remove the last moderating influence on the militants; the Palestinian prime minister, Ismail Haniyeh, has called on them to keep the soldier alive.

Then again, neither side always acts in its own best interests. The kidnap, besides giving Gazans bombings and power cuts, has undermined the Hamas government, which seems to have little if any control over the kidnappers, even though some are from the Qassam brigades. And Israel's heavy-handed tactics have so far done nothing to bring its soldier closer to freedom and everything to make the

Palestinians even more hostile.

All this prompts speculation over whether Mr Peretz and Ehud Olmert, the prime minister, are too much under the security establishment's thumb. Neither, unlike their recent predecessors, had a long military career; both run fractious parties in a shaky new coalition; both need to establish credibility. In a poll last month, just 37% of Israelis supported the main plank of Mr Olmert's election platform: his “convergence” plan to pull Israeli settlements out of the West Bank unilaterally. A restive Gaza, belching out rockets and swallowing up soldiers, is not a good advertisement for a repeat exercise in the West Bank. “I think they're being led by the head of the security service,” says a former senior intelligence official. “It's an acid test for them, and they cannot afford to reject the firm views and opinions of the professionals.”

But Shlomo Brom, a former head of the army's strategic planning, disagrees. The political situation, he says, leaves few options. Mr Olmert has reportedly been rejecting the army's most ambitious plans. In the longer run, Mr Brom thinks, Israel's “new rules” may mean an attempt to create a balance similar to the one on its border with Lebanon. There, tough Israeli responses to every attack by Hizbullah's militants are credited with bringing about an uneasy but largely successful detente.

But the Qassam brigades have shown they can launch a rocket and make it fly farther than ever, even with the army not far away. And Gaza, unlike south Lebanon, has many militant groups, with varying agendas and loyalties. Israel's decapitation of Hamas will further weaken whatever influence Hamas had over them. Fatah, the incumbent party that Hamas defeated in elections this year, and the only one that could replace it in government, was just as incapable of keeping them in check.

Israeli right-wingers are crowing. They had given warning that after the Gaza withdrawal, the missiles that often fall on Sderot (a small town near Gaza) would start falling on Ashkelon. And commentators of all stripes are arguing that sending the army back into Gaza, less than a year after it was pulled out, is the death-knell for Mr Olmert's plan to withdraw from most of the West Bank.

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Kuwait and democracy in the Gulf

Just a first step

Jul 6th 2006 | CAIRO
From The Economist print edition

Will other rulers in the Gulf be hearing the same message?

Get article background

WHEN the emir of Kuwait dissolved his parliament in May and called snap elections, it must have seemed a good idea. Cheeky oppositionists had been making trouble, complaining about corruption and clamouring for electoral districts to be redrawn more fairly. But last week's vote, under the old rules that have long favoured government allies, produced a shock result in the shape of a big opposition majority, a rare thing since the legislature's founding in 1963.

AFP

Not quite victorious yet

The shock was felt not just in Kuwait, but in the palaces of other monarchs along the Gulf, who have long regarded their sister emirate's democratic experiment as a noisy but harmless indulgence. Pressed to reform in recent years, most Gulf rulers have made gestures to expand public participation in government. But none of their town councils, appointed consultative bodies and highly circumscribed legislatures has anything like the potential clout of Kuwait's new parliament.

Kuwait is hardly a model of democracy either—at least, not yet. Its head of state is hereditary, and he appoints the 15-person cabinet. Typically, half its ministers are members of the ruling Al Sabah family. All have voting rights in the parliament. This raises the number of legislators from the 50 elected MPs to 65, and raises the bar for winning a vote against the government.

Yet the parliament does have the right to embarrass ministers with tricky questions. It can rely on the Arab world's freest press to air grievances, too, though in this small, hyper-rich state with barely 1m citizens among its 2.3m residents, word of scandal gets around anyway. In January, it won greater legitimacy when it endorsed the removal of the ailing crown prince, only a few weeks after the death of the previous emir, and his replacement by an abler man.

The newly elected body wields another kind of newly-won legitimacy, too. For the first time, women both voted and ran for seats. They did not win any, and, significantly, Islamist groups who have opposed female suffrage actually scored gains. Yet even liberal reformers seem pleased with the results. Having ridden a wave of popular activism, the number of MPs who favour electoral reform, which was the key issue, went up from 29 to 35.

They are a motley coalition, united solely in protest against districting rules, introduced in 1981, that

divide the country into small, uneven constituencies that are said to have eased manipulation by means of money and government perks. Newly elected members will insist on changing such rules, rooting out graft and blocking the appointment of ministers they dislike. Some say the time may be ripe to push farther, with the ultimate aim of turning the Al Sabahs into constitutional monarchs.

Such notions may chill blue-blooded veins in the Gulf, but the contest has only begun. Some Kuwaiti analysts predict that Islamist and liberal MPs will soon fall out over other issues. They have often done so in the past, leading to legislative logjams that reform-resistant monarchs elsewhere in the Gulf have cited as evidence that democracy is a waste of time. Just now, too, Kuwait and its neighbours are so flush with oil money that their rulers can continue their time-worn practice of buying off dissent.

Besides, summer temperatures soar so high that most citizens of the Gulf tend to forget about politics for the season, and head to cooler climes. All the same, the Kuwait experiment will continue to be eagerly watched by the Arab world's doughty advocates of democracy.

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Sudan

No end in sight to Darfur's misery

Jul 6th 2006 | NAIROBI
From The Economist print edition

An African Union meeting again fails to help mop up Africa's bloodiest mess

Reuters

Waiting for the blue helmets

DESPITE a peace deal signed in Nigeria in May between the Sudanese government and some of the Darfur rebels, hopes for an end to the continuing misery in western Sudan were dampened last week at a summit meeting of Africa's leaders in the Gambia. The Sudanese government is still refusing, despite earlier indications to the contrary, to allow a beefier UN peacekeeping force to take over from the faltering African Union (AU) one in Darfur.

The main pretext for Sudan's government refusing to co-operate is that the Darfur rebels are themselves divided (true) and that one of their two main groups has refused to co-operate too. Indeed, after the death of at least 180,000 people (some estimates exceed 300,000) and the displacement of at least 2m more, the Darfur rebel group which refused to sign the pact in Nigeria has started fighting again, along with dissenting commanders from the main rebel group. Foreign aid-workers say the refugee camps are becoming more dangerous. Worst of all, there is no sign that either the AU or the UN has much hope, in the short run, of making things safer.

The African leaders meeting in the Gambia had hoped that Sudan's government would agree, after adjusting the Nigerian peace accord, to let 15,000 peacekeepers under the UN's aegis, backed by NATO's air support and intelligence, replace the AU's 7,000 now in Darfur. But the Sudanese refused to discuss any changes to the deal. The AU was powerless to force the Sudanese government to agree. The UN's secretary-general, Kofi Annan, looked forlorn. Sudan's president, Omar al-Bashir, told Mr Annan he would not budge. Mr Annan said he hoped Mr Bashir would change his mind.

The trouble is that, back home in Khartoum, Mr Bashir has little room for manoeuvre. He has made big concessions to the south Sudanese, who have been fighting for autonomy (or more) for most of the past three decades and now look set to achieve it, so he cannot be seen to give away much to the rebels in Sudan's western region of Darfur as well. To do so would risk a furious backlash from Sudan's powerful military and intelligence services, who fear the country's fragmentation and possibly their own future conviction in an international court for the mass killings in Darfur. It has been suggested that UN-enforced economic sanctions may be a way to force Mr Bashir and his government to back down, but they would probably be vetoed by China, now the main importer of Sudan's oil.

The African summiteers did, however, achieve something by agreeing to extend the AU force's mandate from the end of September until the end of this year. After that, no one seems to know what to do. Morale among the UN people involved in Darfur is low. The UN's special representative, Jan Pronk, admits that the peace agreement signed in May needs adjusting. Even if the Sudanese government did let a UN force in, it is unclear who would contribute to it, though it is understood that its troops would be drawn mainly from African and Arab countries. But governments such as Tanzania's, which has sounded keen to provide some men, say they will not send them to Darfur without a durable agreement. Meanwhile, the Sudanese government is sitting tight—and the killing in Darfur goes on.

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The Democratic Republic of Congo

Hold your breath for the big one

Jul 6th 2006 | KINSHASA
From The Economist print edition

Candidates have started campaigning in Africa's most eagerly awaited poll

CARS on Kinshasa's main boulevard still move at a snail's pace during rush hour and the traffic police are, as always, on the look out for a reason to pounce on drivers and demand “a little something”. But the glossy posters and banners that now cover every inch of free space have turned a trip downtown into a “Who's Who” lesson in Congo's politics—for the country's politicians are at last on the campaign trail. After 32 years of Mobutu Sese Seko's dictatorship and two devastating wars in the past decade alone, the former Zaire's 26m voters have been promised that they will finally have their say on July 30th. If all goes well, it will be the inappropriately named Democratic Republic of Congo's first free and fair vote in 45 years. It should mark a big step towards the recovery of the whole region of central Africa, long destabilised by Congo's malaise.

There are no fewer than 33 presidential and 9,700 parliamentary candidates in what has proved to be one of Africa's most expensive and complicated elections ever. But the incumbent president, Joseph Kabila, who replaced his father Laurent as president after his assassination in 2001, is the clear front-runner. Unlike his father, the quiet 35-year-old has sought to avoid conflicts and is hoping to take credit for ending the war of 1998-2002. He is also making full use of his control of the security services and his monopoly of the state media, which are already broadcasting his message live from Congo's bush.

Still, leaving nothing to chance, Mr Kabila has turned to a Washington-based public-relations company, Stevens and Schriefer Group, which twice helped make George Bush America's president. As Mr Kabila starts campaigning at rallies, the firm's slogans, television advertisements and mobile cinemas are being dispatched to every corner of Congo.

Those running against the president have also brought in hired help. Take Oscar Kashala, a previously little-known, Harvard-trained cancer doctor who says he is one of a rare breed of Congolese earning $375,000 a year without stealing a penny. Mr Kabila's government suspected that Mr Kashala's security and political consultants were up to no good, so in May it arrested 32 of them, including Americans, South Africans and Nigerians, for an alleged coup plot. After no evidence was produced, they were later freed. While accusing the government of intimidation, Mr Kashala says he was grateful for the chance it gave him to emerge from the clutter of candidates. “Today I'm known all over Congo because of this mercenary story,” he says. “I couldn't have bought this publicity.”

A plethora of rebel leaders who fought during Congo's five-year war, as well as opposition politicians, some of Mr Mobutu's former cronies and a son or daughter of every former president, have also joined in the race. But in a country where there are over 260 political parties and no ethnic group represents more than 5% of the total population, these candidates have been busy forming coalitions. They have also been indulging in scathing personal attacks on each other, forcing the UN and the EU to call for calm.

While publicly supporting Congo's long-awaited, still very fragile experiment in democracy, many Western diplomats in Kinshasa say in private that Mr Kabila is the only candidate capable of running the chaotic country for now. Many Congolese, noting the big mining deals that foreign companies have sealed during Mr Kabila's tenure, think the world's powers have already chosen Mr Kabila as president. In Kinshasa, hostility to foreigners is rising.

The continuing boycott by the opposition Union for Democracy and Social Progress (UDPS), one of the biggest Congolese parties, is also stoking fears of violence. It has called on its supporters to sabotage any attempt at campaigning for a vote; the election, it says, is already flawed. On the first day of campaigning in Kinshasa, your correspondent saw a UDPS man nearly lynched for tearing down a rival opposition poster. On the same day, elsewhere in Congo, police shot dead 11 anti-government demonstrators. These are reminders of the insecurity and chaos that millions of Congolese will face when they vote, despite unprecedented attempts to guarantee their security. The EU is dispatching some 800 soldiers to Kinshasa, on top of the 17,000 UN peacekeepers that are already in Congo trying to pacify the lawless east and distribute millions of ballot papers to 50,000 voting centres on time.

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War crimes in Africa

Peace versus justice

Jul 6th 2006
From The Economist print edition

Can mass killers be made to face justice without impeding peace? Maybe, yes

ONCE again, the needs of peace appear to be clashing with the exigencies of justice. Uganda's president, Yoweri Museveni, is said to have offered Joseph Kony, leader of the notorious Lord's Resistance Army (LRA), a “total amnesty” and “unconditional peace talks” if he agrees to end the rebellion that has ravaged northern Uganda for the past 20 years, leaving tens of thousands dead and 1.7m homeless. But the International Criminal Court (ICC) in The Hague, which indicted Mr Kony and four of his henchmen in October, is insisting that its arrest warrants be acted on.

The reclusive Mr Kony, now aged 46 and shorn of his dreadlocks, has recently been giving interviews—his first since the insurgency began—denying all responsibility for his alleged atrocities, including massacring his fellow Acholis, chopping off their limbs, raping their women, and abducting their children to work as child soldiers and sex slaves. He says he is a freedom-fighter, not a terrorist.

This week, a Ugandan negotiating team, led by the country's minister for internal affairs, arrived in Juba, capital of southern Sudan, where peace talks with the rebels are due to begin next week. Salva Kiir, southern Sudan's president, has offered to act as mediator. But it is unlikely that Mr Kony will risk coming out of his hiding place in neighbouring Congo to lead the LRA team, despite Mr Museveni's amnesty promise. It is not anyway in the Ugandan leader's power to block the ICC prosecution. As the court has pointed out, both Uganda and Congo, as ICC state parties, have an obligation to execute the arrest warrants, while Sudan, a non-state party, has formally pledged to do so.

Religious and community leaders in northern Uganda have long criticised the fledgling ICC for impeding the chance of ending two decades of suffering, accusing it of pursuing the indictments for its own greater glory. They claim that LRA violence in the region has got worse since the warrants were issued. But Luis Moreno-Ocampo, the ICC's chief prosecutor, says that the rebel attacks in northern Uganda have declined dramatically since then. In the past, says the ICC man, Mr Kony used negotiations to buy time and to regroup and rearm.

Reuters

Now they're hissing at Habré too

Could it be that, far from clashing with the peace process, the ICC's pursuit of justice is actually aiding it? Is it because Mr Kony feels the net closing in around him that he is coming back to the negotiating table? A peace deal, backed by an amnesty (which already exists), might entice his estimated 300 remaining fighters out of the bush. But, sooner or later, he himself is likely to face the fate of Charles Taylor, Liberia's former president, and now Chad's ex-ruler, Hissène Habré, both of whom once thought themselves untouchable but now await war-crimes trials.

Since his fall in a coup in 1990, Mr Habré had been in exile in Senegal, where a court in 2000 charged him with war crimes during his eight-year rule in Chad. But Senegal's highest court then ruled that Senegal did not have jurisdiction for crimes committed elsewhere. Belgium agreed to try him under its universal jurisdiction law, and asked Senegal to extradite him. But it refused, referring the matter instead to the African Union. This week the AU finally asked Senegal to try Mr Habré in its own courts. Senegal has agreed to change its laws to enable it to do so.

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Nigeria

The lady was for moving

Jul 6th 2006 | LAGOS
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Sorely-needed economic reform may be in jeopardy

AFP

She was shocked

NGOZI OKONJO-IWEALA may not have been loved by many of Nigeria's politicians, but she had become well-known abroad as her country's best hope for cleaning up its rotten public finances. So President Olusegun Obasanjo's recent decision to remove her from the finance ministry and make her, instead, the country's foreign minister surprised everyone, not least because of his own keen desire for credibility abroad. The move certainly shocked Mrs Okonjo-Iweala herself.

Most diplomats and bankers see it as a threat to Nigeria's economic reform, despite the president's assurances that she will still head his economic team. They credit her with bringing more openness and monetary stability to one of the world's most corrupt countries and for persuading foreign creditors to write off debts of $18 billion last year.

Some optimistic Nigerians think that, as foreign minister, Mrs Okonjo-Iweala will use her good international image to help change perceptions of Nigeria, while preparing herself for higher office in due course. Pessimists, however, fear she has been moved to clear the way, ahead of next year's elections, for the plunder of public coffers, now stuffed with billions of dollars thanks to her careful budgeting and high oil prices. Her replacement is her former deputy, Nenadi Usman, respected abroad but seen by many Nigerian politicians as a lightweight who will struggle to push unpopular reforms past legislators keen on re-election. Nigeria's fiscal responsibility bill, which would enshrine many of Mrs Okonjo-Iweala's reforms, has been languishing in parliament for months.

Another possible reason for the job shift is that Mr Obasanjo wanted to reassert his authority over his economic reform team, many of whom opposed his recent failed attempt to alter the constitution so that he could stay in power for a third term. As the election race hots up, he may well intensify his efforts to secure the presidency for a chosen successor, especially if he wants to dish his own vice-president, Atiku Abubakar, whom he loathes but who has strong support in the ruling party.

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German-American relations

Ready for a Bush hug?

Jul 6th 2006 | STRALSUND
From The Economist print edition

A new friendship blossoms, but there is a risk that the Americans may expect too much of the Germans

DESERTED streets, drains welded shut, fighters patrolling the sky. Germans still recall vividly George Bush's meeting with Gerhard Schröder in Mainz in February 2005. What got lost amid the security was the message the American president had hoped to send. For Mainz was where his father had in 1989 offered Germany a “partnership in leadership”.

Next week Mr Bush visits Germany again, en route to the G8 summit in St Petersburg. He will go to Stralsund, a medieval town on Mecklenburg-West Pomerania's Baltic coast. On July 13th, after greeting the mayor and visiting a church, he will meet a hand-picked crowd in the marketplace (anti-Bush rallies will be held at a safe distance). Later he will enjoy a barbecue in Trinwillershagen, a model village often visited by communist dignitaries. The aim is to show that German-American relations are back on track—thanks to a new chancellor, Angela Merkel.

Stralsund is a good choice. Located in the heart of Ms Merkel's own constituency, it is her version of Crawford, Texas—but with a small apartment and an office rather than a ranch. It is also a rare eastern German success story. Unemployment is high, but the mayor, Harald Lastovka, has turned the place into a tourist attraction and UNESCO world heritage site. He did this with public money, but also some unorthodox policies: he even tried to privatise the municipal savings bank.

Most Germans are happy that the low point in German-American relations, when Chancellor Gerhard Schröder noisily opposed the Iraq war in 2002-03, is behind them. But they remain unpersuaded by Mr Bush's charm offensive. Some fear that Germany may again come to seem too close to America. A few fret that the Americans could lure Germany into a “coalition of the willing” against Iran. Still others worry that the Americans overestimate what Ms Merkel can deliver.

No love was lost between Mr Bush and Mr Schröder. But broader relations between the two countries were never quite so bad. The CIA was helped by two German spies in Baghdad during the early days of the Iraq war. And relations have improved since then. Indeed, with Tony Blair a lame-duck British prime minister, Germany could take on Britain's role as America's favourite partner in Europe.

The rapprochement partly reflects Mr Bush's pressing need for allies in Europe. To get the Germans on board, Mr Bush has even showed some comprehension, albeit awkwardly expressed, for their opposition to the war. “I've come to realise that the nature of the German people are such that war is very abhorrent (sic)”, he said in an interview with a German tabloid. “The point now is, how do we work together to achieve important goals?”

Personal chemistry plays a role. Ms Merkel lacks Mr Schröder's flamboyance, but she impresses with her unassuming civility and directness. Mr Bush seems also to see her as living proof of America's victory against communism: without the fall of the Berlin Wall, she might still be a mere physicist. He appreciates that freedom looms large in her political thinking, which shows no trace of anti-Americanism. The two leaders talk often on the phone, sometimes several times a week. It is not just spin when insiders say that the relationship is as close as that between George Bush senior and Helmut Kohl.

Besides a more diplomatic chancellor, a less visible shift is happening. Slowly but surely Germans are shifting from idealism to realism, particularly over Iran. They are convinced that something must be done about the country's nuclear programme. The recent Pew poll of global attitudes found no country with a higher share of the population opposed to Iran acquiring nuclear weapons than Germany. “Germans know how dangerous a madman at the helm can be,” comments Gert Weisskirchen, a foreign-policy guru for the Social Democrats. No party other than the Left Party would oppose “smart” sanctions if Iran rejected the western package of incentives for it to remain non-nuclear. If there were a threat to Israel, Germany would help to defend it “without batting an eyelid,” says Mr Weisskirchen.

Is old-fashioned Atlanticism getting a second lease on life? Not so fast, says Karsten Voigt, the government's co-ordinator of German-American co-operation. It helps if the two leaders get on, he concedes. But the cold war is over, so Germany is inherently less dependent on America. “Chancellor Willy Brandt couldn't have said no to the Vietnam war.”

There are many issues on which Germany will never side with America, and plenty of others that will rankle. Germany is unlikely to increase defence spending, a long-standing American demand. And the Germans strongly favour multilateralism. The secret American programme to track bank transfers, its nuclear deal with India, and CIA flights in Europe are all seen as evidence of America's unilateralist instincts. Most Germans prefer France as their main ally in foreign policy. As for Mr Bush, he could walk the Baltic from Stralsund to Sweden and still be the most unpopular American president since polls began.

Almost all of Germany's political leaders have toned down their criticism of the war in Iraq. But though the 1968 generation of Joschka Fischer, Mr Schröder's foreign minister, is on its way out, that does not mean the transatlanticists are back. Foreign-policy making is increasingly influenced by younger pragmatists, says Karl-Theodor Freiherr zu Guttenberg, of the Christian Social Union.

Ms Merkel is herself more pragmatic than many Americans realise. She has adjusted Germany's bilateral relations, but the substance of foreign policy has changed little. And, as in domestic politics, there is a risk of overestimating what she can do. She may be Europe's most powerful leader now, but could she deliver her country (or the rest of the continent) if it came to tough action against Iran? Domestically, her position may also weaken if her reforms disappoint or upset voters—as this week's health-care plans may do.

Here, indeed, lies the big danger to American-German relations: that America may expect too much help from Germany, whether on Iran, the Balkans or Russia. Ms Merkel has repaired ties with Washington at the same time as showing that she is no poodle, criticising Guantánamo and pushing the Americans to talk directly to Iran. But even this political acrobat could lose her balance if she is hugged too hard.

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A Franco-German textbook

History lessons

Jul 6th 2006 | BERLIN
From The Economist print edition

A joint history book that crosses the Rhine

GERMANY'S relations with America and France have often been like communicating vessels: less of one leads to more of the other. In the run-up to the war on Iraq, there was even talk of a Franco-German union. Now that the Bush administration has rediscovered its German partner, it is hard not to detect a chill over the Rhine. Yet the link to France runs deep. Next week in Saarbrücken, French and German officials will present a worldwide first: French- and German-language versions of a joint history book, covering the period since 1945.

After two centuries of bitter war, such a thing is quite hard to imagine. When the book was first touted, in 2003, many sceptics predicted that it would never appear. Yet a group of historians soon drafted an outline. Five teachers from each country then wrote the book, apparently with few big arguments. The single bone of contention, it seems, was over the role of America after 1945, which the authors chose to highlight rather than gloss over. The book says that, whereas Germans tended to see America as a protector and supporter of western Europe, the French often saw it as the new “imperialistic power”.

The French and Germans have learnt a thing or two about how to set up and run bi-national projects. Each chapter of the book was co-written by a French and a German teacher. The book also highlights a few differences, not all of them expected. The publishers—Nathan in France, Klett in Germany—had to deal with one education ministry in Paris, but 16 state ministries in Germany. Yet in centralising France, it is teachers who pick schoolbooks, whereas in federalist Germany, it is state bureaucrats.

This may explain why German history books have tended to be dull collections of documents, and French ones often resemble lifestyle magazines. But even more important are differences over how history is taught. Germany likes students to draw their own conclusions. French students are expected to learn a particular syllabus.

The book tries to bridge such differences, both graphically and pedagogically. It is the first history book in Germany to be approved by all 16 states. It also promises to be a handy tool for language teachers: the authors have had to explain many expressions that are hard to translate, such as *laïcité* and *Ostpolitik*. The publishers are now working on two more books, on earlier periods. Will it prove as easy to reach an accord on Napoleon and Hitler?

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About sponsorship

Slovaks and Czechs

Folk-dance in suits

Jul 6th 2006 | PRAGUE
From The Economist print edition

Two countries that seem to fight boredom with political bafflement

AFP

Fico, socialist with a low credit rating

HARRIED by the secret police, Czechoslovakia's communist-era dissidents used to dream of living in a “boring European country”. In the 16 years of democracy they have now had, politics has rarely been boring, but it is at the moment exceptionally baffling.

The first lot of puzzles is set by Slovakia (which left the former federation in 1993). A big one is why voters last month dumped a government that had become a byword in the region (and the world) for fast reform and economic success. The answer is that booming growth and investment did not quite make up for the government's image as devious, divisive and unsympathetic.

A harder puzzle is to understand the new government that took office this week. At first sight it seems dodgy and unattractive. It is led by Robert Fico, a left-wing populist committed to reversing economic reform. One of his coalition partners is a nationalist party whose attitude to Roma (gypsies) and Hungarians strikes many as racist. The other is run by Vladimir Meciar, the prime minister whose thuggish rule in the 1990s brought international isolation and economic stagnation. Mr Fico's party, Smer, claims to be mainstream socialist. But its choice of coalition allies has brought a rebuke from other European socialists. Some want to expel Smer from their international group.

Mr Fico wants his new government to look reasonable. Neither Mr Meciar, nor the nationalist party leader, Jan Slota, has a formal cabinet position (though the three will form a “coalition council”). Populist promises have been swiftly dumped. Money permitting, says the new finance minister, Jan Pociatek, there may be some tax changes (such as lower VAT on food and household energy). But the government will keep Slovakia's famous flat tax on personal and corporate incomes.

That has partially reassured outsiders and financial markets, which had noted with alarm the weakness of Mr Fico's economic team. Mr Pociatek, a restaurateur known more for his penchant for flashy motorcycles than for his familiarity with public finance, was a particularly unexpected appointment. He says that Slovakia will join the euro in 2009 as planned. But this will require an unlikely degree of budget discipline from a government that plans to splurge on the poor.

The upshot is neither ideal nor disastrous. That contrasts with the puzzle in Prague, where a tied election result on June 3rd has so far produced no upshot at all. A right-wing coalition of conservatives, Christian Democrats and Greens has, in theory, 100 seats in the 200-seat Czech parliament. But this week it could muster only 98 votes in a secret ballot to elect a speaker. Barring an unlikely defection from the left-wing parties, it is thus doomed not to form a government. The outgoing Social Democrat prime minister, Jiri Paroubek, cannot form a government on his own (even with the hardline Communists, who are widely treated as political outcasts). But it seems he can block anybody else.

The resulting manoeuvres are as intricate as a central European folk-dance, but one performed in grey suits, not colourful peasant costumes. Some think that a German-style grand coalition between right and left is now the only sensible outcome. But for that to happen, the leaders on both sides would have to show their supporters that all other options (such as a minority government) had been tried.

A grand coalition may also need different leaders. Mr Paroubek damaged his standing in his own party by a strikingly ill-tempered outburst on election night. The conservative leader, Mirek Topolanek, is also looking shaky. He could yet make way for the popular and powerful mayor of Prague, Pavel Bem, who is a close chum of the Czech president, Vaclav Klaus. Mr Klaus is better known as a stirrer than a peacemaker. But he would like a second term in office. Brokering a deal that gave the Social Democrats a role in government—at least for a year or two—might be a good way to get it.

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Spain and ETA

Talking peace

Jul 6th 2006 | MADRID
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The end of 40 years of Basque separatist terrorism may be in sight

AFP

Graffiti from the past?

IT COULD turn out to be a key moment in recent Spanish history. The government is to start talks with the Basque separatist group, ETA, this summer. A definitive end to four decades of terrorist violence may be on the horizon.

The talks come three months after ETA declared a ceasefire. Basques, who overwhelmingly reject ETA's terrorist methods, are mostly delighted. Polls show that other Spaniards, as a whole, are pleased too. Many now see ETA as an unwanted relic from the days when Spain was under the dictatorship of Franco. In the past 40 years, ETA has killed more than 800 people. But it had not killed anyone for almost three years before its ceasefire was declared.

That was partly because al-Qaeda's March 2004 train bombings in Madrid made any terrorist outrage seem even less acceptable. But it was also because Spain has come as close as is possible to defeating a terrorist group. Indeed, the talks may be a way of formalising that defeat, without forcing ETA to admit its own failure.

José Luis Rodríguez Zapatero, the Socialist prime minister, had pledged to announce the talks in the Madrid parliament. He stuck to that, but only just. Instead of the debating chamber, he chose a press conference. That meant that the boos of Spain's conservative opposition, the People's Party (PP), could not spoil the moment. “The process is going to be long, hard and difficult,” Mr Zapatero declared, adding that “peace is a task for everybody.”

The PP does not see it that way. “You can't negotiate with someone whose negotiating weapon is as powerful and hard to argue with as a pistol,” said their leader, Mariano Rajoy. Mr Zapatero's PP predecessor, José María Aznar, accused him of bowing to terrorism. “Who is winning this game? Is it the victims? No, it is the killers,” he said. The peace process, if this is it, looks set to pass the PP by.

The PP's position is that principle must be placed before pragmatism when terrorism is involved. But this claim to the moral high ground is spoiled by the fact that when it was in government, it too talked to ETA during a previous ceasefire. The PP's refusal to back Mr Zapatero now is an unwelcome obstacle. One key to the Northern Ireland peace process was the support of the opposition in Britain's parliament. Mr Zapatero must now walk alone.

The signs from those close to ETA are encouraging, though there is surely much scope for messing up. The hope is that ETA's banned political wing, Batasuna, will formally condemn violence as a step to being allowed to stand for election again. “We don't want them outside the democratic system, but rather inside,” says Patxi López, the Basque Socialist leader.

If peace comes, Mr Zapatero will reap political rewards. Yet it was PP governments from 1996 to 2004 that oversaw ETA's near-defeat. The opposition would presumably like to get back into power. It may need to take peace lessons first.

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Higher education in Greece

A Socratic non-dialogue

Jul 6th 2006 | ATHENS
From The Economist print edition

Despite noisy protests, the government still wants to reform the universities

EPA

Plato's angry heirs

LOOK at the faculty list for any leading university in America or Europe and you will be struck by the number of Greek names. Campuses all over the Western world—especially Britain—are also full of Greek students, many of whom get excellent results under pressure from parents who have stretched their family budgets to give their children the best chance. But despite the importance that Greeks attach to education, Greece has some of the worst universities in Europe.

Marietta Giannakou, the Greek education minister, hopes to start correcting that. She says there are about 5,000 scientists and professors of Hellenic origin who might be lured back to their native land if its university system were more rational and freed from the state's stranglehold. But the minister's efforts at reform have run into a wave of violent protests, both among students and among academics who like the status quo.

Instead of sitting their qualifying exams, Greek students spent the final weeks of the academic year staging noisy street demonstrations. Last week, a group of extremists among a 10,000-strong student protest in Athens hurled petrol bombs and paving-stones at police, who fought back with tear gas. The protesters claim to be inspired by those at the Athens Polytechnic who tried to overthrow Greece's ruling colonels three decades ago. But graffiti around Athens University explain their main gripe: they are enraged by the centre-right government's talk of ending the state's monopoly on higher education and introducing private, not-for-profit universities.

Such universities would certainly charge for tuition, but they could also get cash from Greek shipping tycoons and other frustrated benefactors, who now endow departments of Greek studies at American universities and would love a chance to be similarly generous at home. Greece's economy—one of the weakest in the euro area—would improve faster if more students could earn MBAs and doctorates in computer sciences at home, Mrs Giannakou argues.

Even if the mood on the streets were calmer, she would not be able to authorise independent universities at a stroke. That requires a change in the constitution, a complex procedure that starts in the life of one parliament but can be completed only in the next. But there are other things that parliament could, in theory, do now—such as set time limits for students to finish their courses, or make them pay for some tuition and textbooks. Those were among the aims of an education bill which Mrs Giannakou had hoped to push through parliament during its partial recess this summer. After the recent protests, the bill has been shelved until the autumn.

The centre-right government will not give up on education reform. One reason why Costas Karamanlis, the American-educated prime minister, is prepared to tackle it is that the Socialist opposition leader, George Papandreou (who has degrees from American and British universities), agrees on the need for change.

Higher education is only one area of Greek life where common sense—and cooler heads in the top ranks of both main political parties—points one way, while long-established practice, and the mood on the street, point in the opposite direction. Much the same applies to the security situation in the Aegean, where military competition between Greece and Turkey costs billions of dollars—and puts at risk even larger amounts of tourist revenues, in the event of a serious incident. A lot of money could be freed to

improve its education system, if Greece were somehow able to reduce the share of GDP that it now spends on defence.

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The French press

Hatched, matched, dispatched

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More evidence of the close links between politics and the media

Alamy

Many papers, much politics

AS TWIN icons of the French press, *Libération* and *Paris-Match* could scarcely differ more. Left-leaning *Libé*, co-founded by Jean-Paul Sartre after the events of 1968, is the bible of today's armchair revolutionaries. *Match* is a coffee-table celebrity glossy with a hard edge, exposing secret royal babies and gruesome war images alike. Now both are in turmoil after losing their editors.

Libération's editor for 32 years, Serge July, quit at the request of Edouard de Rothschild. Two years ago, Mr Rothschild poured €20m ($25m) into the paper, securing a 38.8% stake. Yet, despite redundancies, cost-cutting and reorganisation, it is likely to lose €7m this year. Sales have dropped from 172,000 in 2001 to 142,000. Mr July left, he said, “so that the enterprise could live on”, after Mr Rothschild had refused to put in more cash with him still in place.

Libé may be a victim of familiar newspaper troubles, but *Paris-Match* is not. On the contrary: with the French lapping up celebrity culture, and despite a profusion of rival gossip rags, sales have crept up, from 706,000 in 2004 to 714,000 in 2005.

The owner of *Match*, Hachette Filipacchi Médias (HFM), says Alain Genestar, the editor, was sacked for “ethical differences” over a cover last summer that showed Cécilia Sarkozy, wife of Nicolas Sarkozy, the interior minister and head of the ruling centre-right UMP party, with a male companion. Given France's tradition of ignoring the private lives of public figures, the cover was a shock. HFM says it broke an in-house rule against exposing the private lives of a public figure's family.

Defiant *Match* journalists, not known for militancy, staged a one-day strike last week to back Mr Genestar. They say that he was sacked for political reasons. Arnaud Lagardère, the eponymous boss of the group that includes HFM, is a friend of Mr Sarkozy. HFM insists that the dismissal “has no political cause”.

Economics and politics are tightly intertwined in the French media. Most newspapers and radio and television stations belong to big conglomerates that partly depend on state contracts or political influence. Lagardère also owns Europe 1, a top radio station, as well as a stake in EADS, an aerospace giant; Mr Lagardère remained the EADS co-chairman after the recent reshuffle. Another defence firm, Dassault, owns *Le Figaro*, a right-leaning daily. By some calculations, 70% of the French press is in the hands of defence firms, making plain the potential for political meddling. Sometimes, the links are overt: after buying *Le Figaro* two years ago, Dassault's boss, Serge Dassault, was elected senator—for the UMP.

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Charlemagne

In praise of Finland

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What the European Union should learn from its new president

"IN THE cave they listened and listened but all they heard was silence." So begins the climax to Tove Jansson's "Comet in Moominland", one of Finland's greatest contributions to children's literature. It concludes: "'Mamma,' said Moomintroll, 'is it all over now?' 'Yes, it's over, my little Moominchild,' said his mother. 'Now everything is all right.'"

In Finland now, everything is all right. Fifteen years after one of the worst recessions any European country has seen, triggered by the collapse of the Soviet Union, Finns are not exactly merry (that would hardly suit the national temperament), but they are content. Their small country (5m people) is at or near the top of most league tables: first in the World Economic Forum's list of most competitive countries, and second in its business-competitiveness index; first in the OECD's world ranking of educational performance; second-highest share of R&D spending in the European Union. The country is reversing its demographic decline: its fertility rate is one of the highest in Europe. A Finnish group even won this year's Eurovision song contest.

Perhaps best of all, the Finns are facing globalisation without paranoia. Theirs is one of the few European countries to have succeeded in businesses (notably mobile phones) in which international prices are falling because of global competition and technological change. In most of Europe public opinion and even business elites seem gloomily resigned to being overwhelmed by India and China. Finland suggests that this fate is not inevitable. So, in the week when Finland takes over the rotating six-monthly presidency of the EU, it is worth asking: what would Europe be like if it were more like Finland?

It would, for a start, be in better fiscal shape. For some years, Finland has been running proportionately the biggest fiscal surplus in the euro area. This is a result of prudence over the long haul, not just when the going was easy. In contrast, most other euro-area countries have insouciantly breached the fiscal rules set up before the launch of the single currency (though Germany's imposition of one of its biggest tax increases since the war may signal a return to fiscal austerity).

Were it to ape Finland, the EU would also be readier to see money and people shift from declining to growing industries. Even in the depths of the recession, when construction companies hammered by lost Soviet contracts begged the government to bail them out, Finland chose instead to spend its money on

retraining workers for technology jobs. Finns see the benefits every waking moment: Nokia, which once made gumboots, turned to mobile phones. Indeed, this single company may now be dangerously dominant: it accounts for a quarter of Finland's exports and a big chunk of R&D spending.

European countries would also pay more attention to skills, knowledge and education. That does not necessarily involve spending lots more money. The Finns spend no more than average on education and they have invested hugely in biotechnology, with little to show for it. The real lesson from Finland is, rather, that organisation makes the difference.

Finland pays teachers well, gives them an unusual amount of discretion (no “teaching to the test”) and backs them up if they ask for help. In many other European countries, universities are proud of being founded in medieval times, and are often housed in medieval or classical buildings (or, if they do not have them, in replicas somewhat reminiscent of American east-coast campuses). Finnish universities, in contrast, tend to be gleaming steel-and-glass affairs, visible expressions of the link between knowledge and modernity.

Perhaps most important, if Europe were more like Finland, its governments would have retained their ability to take tough political decisions. They would not have let it slip by caving in to protests or sponsoring reforms that they could not make work (France this year, Germany under the Schröder government). Nor would they have squandered political capital on grand, rhetorical projects that raised public suspicions, such as the failed EU constitution.

Consider the case of nuclear energy. Like most Scandinavian countries, Finland has a powerful green movement opposed to nuclear power. Yet Finland is now building a fifth nuclear-power station. This is not because the government has rammed it down hostile voters' throats. Rather, it persuaded the electorate that there was a serious energy problem, announced that parliament would take a decision on a certain date—and promised to respect the decision, whatever it was. Having reassured people of a meaningful debate, it put forward a nuclear-power proposal and proceeded to win the argument.

Finland has also managed to push through significant reforms in its pension system. Only last week it shook up municipal government. That is a first step towards reforming social services in time for the baby boomers' retirement, since the delivery of public services in Finland is mostly in the hands of municipalities—another lesson for the rest of Europe.

Back to reality

Of course, the EU could not really be turned into a big Finland. No other country depends on one company as Finland does on Nokia. Few are as small, open or ethnically homogeneous. And if the rest of Europe were more like Finland, it would have even more inefficient farmers (the average dairy farm in Finland has 20 cows). It would not have more jobs (Finnish unemployment is high) and it would be stuck with a rigid incomes policy that is only now being loosened.

Yet the bigger danger for Finland is complacency. Policy wonks now flock to Helsinki to learn from the country's example. As a rule, when this happens, it is too late: you are already complacent, and your miraculous performance is over. That is not a lesson that European countries need to learn.

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One year on

The wake-up call that wasn't

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A year ago, Muslims and the government promised to work together against extremism. That hasn't happened

Corbis

IF BEESTON HILL had not sent two suicide-bombers to London last July, it might have become known as a symbol of modern Britain. Asians, blacks and whites cram more or less harmoniously into its small red-brick houses. A few St. George's flags, relics of England's ill-fated World Cup run, fly from windows even in Lodge Lane, where the bombers met to plan their terror. That such a mixed, multicultural neighbourhood, in one of northern England's most prosperous cities, should have produced such murderers is still a shock to local people.

But the bombings should have been more than shocking: they were supposed to have been a wake-up call. No longer would extremism be allowed to fester in areas such as Beeston Hill, politicians and the police promised after the attacks. Prominent Muslims pledged to root out extremism in their communities. A year on, though, little of the kind has occurred. The atrocities of July 7th 2005 turn out to have been the kind of alarm call that is followed by intemperate grunts and a collective reaching for the snooze button.

That is surprising, considering what happened immediately after the bombings. In Leeds and other British cities, the police stepped up patrols outside mosques. Muslims were assured that attacks on them would not be tolerated—and, in fact, such attacks turned out to be much rarer than many had feared. Far from turning its back on the city's most notorious minority group, Leeds appointed its first Muslim lord mayor in May.

The most visible sign of last summer's co-operative mood was a parade of Muslim spokesmen and community leaders to 10 Downing Street. Following some amicable talks, seven working groups were set up under the banner of “preventing extremism together”. They produced 64 recommendations, ranging from changes to school history curricula to the creation of a website. Then things went wrong.

What had begun as a good working relationship began to break down when the government declared that a public inquiry was out of the question. Muslims had wanted one largely because they thought it would find a connection between home-grown terrorism and anger over the Iraq war—a connection that is

obvious to the police and security services but not to ministers, at least publicly. The working groups were also told to whittle down their suggestions to 35, then 21, then nine. Finally, three working groups were told to present one recommendation each. All were accepted, but one of the plans—to set up an advisory body on imams and mosques—collapsed amid rancour at government interference.

Ibrahim Mogra, a Leicester imam who was much photographed on the steps of 10 Downing Street, says those Muslims who worked with the government have been sidelined and humiliated. The episode also got them into trouble with co-religionists. Ordinary Muslims had qualms about cosying up to a regime that had sent troops to Afghanistan and Iraq. When their delegates failed to achieve much, the recriminations began: Mr Mogra has had to explain to Muslim audiences that he is not a Labour stooge. “I am a strong believer in engagement with the government, but I now have to balance that desire with the possibility that I will be accused of being a sellout or a self-promoter,” he explains.

Part of the problem is that the government has ploughed ahead with a legislative programme that displays none of the austerity demanded of the working groups. Last August Tony Blair outlined 12 changes to Britain's already stringent anti-terrorism powers. Not all were enacted. A proposal to shut down places of worship that were sheltering extremists was shelved after clerics (including many Christians) objected. A reform that would have allowed the police to hold terror suspects without bringing charges for up to 90 days was watered down after a rebellion in the House of Commons—the first successful one since 1997. But the chancellor, Gordon Brown, has hinted that the matter is not yet settled.

Other measures proved less politically troublesome, but no less troubling to Muslims. Oddly, one of the most fraught has to do with the home secretary's traditional power to keep undesirable folk out of the country. That became an issue because of a mooted trip by Yusuf al-Qaradawi, an Egyptian cleric known to Muslims as a humane commentator on Islamic law who has said some equivocal things about Palestinian suicide-bombers. Mr Qaradawi has visited Britain before, but, after a hysterical newspaper campaign, Charles Clarke, the home secretary of the day, hinted that he might not be allowed to do so again. To British Muslims, the episode suggested that the bar of acceptable behaviour was being raised arbitrarily.

The government is almost as disappointed. Tony Blair told a parliamentary committee this week that Muslims were “not having a debate of a fundamental enough nature” in their own ranks. The government, he pointed out, had less power to turn Muslims away from extremism than did Muslims themselves.

Religious and community leaders were invited to Downing Street because they were thought to have some influence over the zealots. They did not seek to correct this impression. But they have less influence than either side hoped. Few British mosques are dens of radicalism; indeed, many ban lectures about politics. In the scathing words of Adnan Siddiqui, a grassroots campaigner, the committees that run the mosques are “little cabals composed of deferential men from the Indian subcontinent”. Muslim leaders would have little sway over the political opinions of the angry young even if they had not been publicly emasculated in the past year.

One grievance aired in Beeston Hill, which is likely to become louder, is that policing has become more heavy-handed. This is difficult to prove, since the police do not keep statistics about the religion of those they encounter. But it is likely that Muslims are coming in for harsher treatment. The number of Asians searched on the street has almost doubled since the terrorist attacks of September 11th 2001 in America. Most offensive, perhaps, the proportion who were subsequently arrested is lower than for any other racial group. The hit rate for those searched under anti-terrorism powers is especially dismal. In 2003-04, 3,668 were searched under the terms of the 2001 Anti-terrorism, Crime and Security Act. Just 70 were arrested, only one for a terrorism-related offence.

There is, of course, a reason for all this attention. The police say that four terrorist schemes have been stymied in the past year, and that does not include plans that were disrupted covertly. In a video aired on television on July 6th, one of the suicide-bombers, Shehzad Tanweer, promised “a string of attacks that will continue and become stronger”. Britain's response to its first wake-up call has been unimpressive. It may get a chance to try again.

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The army in Afghanistan

Taliban time for Britain

Jul 6th 2006 | KABUL
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The paras are supposed to be in Helmand to make peace, not war

BRITISH troops have history in Afghanistan, where 3,300 have been sent to lead a NATO peacekeeping operation. The NATO barracks in Kabul is built where British armies camped during two 19th-century wars. Southern Helmand province, where most of the modern lot are, saw the loss of over 1,500 British troops then. By those standards, the killing of six British soldiers by Taliban insurgents in the past three weeks is a modest loss. But it is heavy to some, especially on the opposition benches: the government is accused, again, of sending tired British soldiers on a doomed campaign, with inadequate kit.

That is unfair: the Afghanistan operation is different from the war in Iraq. The adjunct to a 26,000-strong coalition force led by America, the NATO force is composed of 9,000 soldiers, from 35 nations. It was established under British leadership shortly after the Taliban were toppled in late 2001, with a UN mandate to support the nascent Afghan government. British troops have since served in it, patrolling Kabul and the northern city of Mazar-i-Sharif. But southern Afghanistan, the Taliban's homeland, is a different case. NATO has hitherto avoided it; on August 1st the alliance is set to take charge of 8,000 coalition troops, including British paratroopers in Helmand. And the Americans have neglected it. Until Helmand was reinforced by the British, they kept 100 soldiers there—though the province is vast, lawless and produces a third of the world's opium.

Hence the recent violence. In the past three years, from their refuges along the border with Pakistan, the Taliban have regained hold of much of southern Afghanistan. Drug money buys them guns and recruits. Knowing this, John Reid, the former defence secretary, was too blithe when he expressed the wish that the mission to Helmand, which will run for three years, would pass “without a shot being fired”. Yet the intensity of the recent conflict has surprised many experts. In the past week, 150 paras in Sangin, in northern Helmand, have been attacked daily. Among the six fatalities there, on July 1st came the death of Lance Corporal Jabron Hashmi, the first British Muslim soldier killed in Afghanistan or Iraq.

The British are short of helicopters and other gadgets, which the Americans may provide. They also have only 800 combat troops, but the government is now urgently considering sending more. A bigger question concerns the mission itself. It was planned as rough peacekeeping: the paras are supposed to secure the well-populated bit of Helmand, help dispense £30m ($55m) of British aid and train local security forces. In the current violence, this would be impossible without more troops and heavy kit than the army can supply.

The British army cannot defeat the Taliban in Helmand, for they are based in Pakistan and have sanctuary in other parts of Afghanistan where there are no foreign troops. But by winning local sympathies, the army hopes to make Helmand sufficiently hostile to the insurgents to be able to do its work. The British are masters of this art. And many impoverished Helmandis may be winnable—as long as the foreigners are not tempted to attack their opium crops. Nonetheless, if the plan does in time succeed, it will have been a devilish close-run thing.

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Growth and inflation

Revised version

Jul 6th 2006
From The Economist print edition

The case for a rise in interest rates gets stronger

THE Bank of England kept interest rates at 4.5% on July 6th. However, the tone of the rate-setters' meeting is likely to have been hawkish. A batch of new economic data has reinforced the need for rates to rise later this year.

Official figures published on June 30th revised up GDP growth in the first quarter of 2006 from 0.6% to 0.7%. They also lifted growth for each of the past five years by between 0.1 and 0.2 percentage points. The cumulative effect of the revisions was to raise the level of output in 2005 almost 0.6% above the previous estimate.

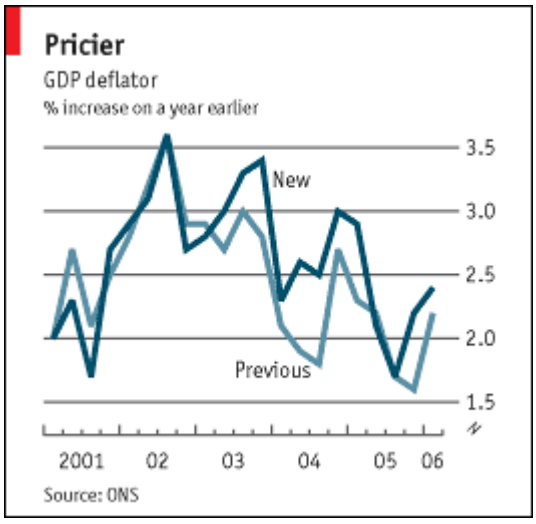
The number-crunchers' annual rewrite of recent economic history is more authoritative than earlier, more provisional figures because it incorporates much more information. Almost all the upward revision to GDP growth over the past five years has come from financial services as a result of better data for output in banking and dealing, especially in securities and derivatives. Remarkably, the new vintage of statistics shows that the financial sector's output grew by 31% from 2000 to 2005, double the previous estimate of 15%.

Most of the extra output in financial services has been exported. That has smartened up the look of Britain's trading performance. The current-account deficit has been revised down from 2.0% of GDP in 2004 to 1.6%; and from 2.6% of GDP in 2005 to 2.2%.

Gordon Brown recently extolled London's success as an international financial centre. The new figures show why the chancellor of the exchequer is so keen to ensure that the City continues to thrive. But the upward revision to growth also conveys the less welcome message that there is less spare capacity in the economy.

Adding weight to this interpretation, inflation, measured by the “GDP deflator”, has been revised up (see chart). This price index, which is the broadest measure of domestically generated inflation, rose by 2.6% in 2004 compared with the previous estimate of 2.1%; and by 2.2% in 2005 rather than 1.9%. The upward revisions reflect higher estimates for housing-cost and public-sector inflation.

The mix of faster growth and higher inflation has raised the level of nominal GDP in 2005 by £15 billion ($27 billion), 1.3% higher than before. This helps to account for the strength of tax revenues last year and adds to worries that the government still ran a big budget deficit in 2005 of £42 billion, equivalent to 3.4% of GDP. Unless capacity growth has improved, it suggests that fiscal policy has been looser than previously thought, says Carl Emmerson of the Institute for Fiscal Studies.



To offset that, the Bank of England needs to tighten monetary policy. Higher rates may prove onerous for embattled consumers, however. The economic rewrite has lowered consumption growth for 2005 from 1.7%, the slowest since 1995, to 1.3%, the slowest since 1992. In six out of the past seven quarters, household spending grew by 0.4% or less, well below its long-term average rate of 0.7%.

The Bank of England has argued for some time that the link between the housing market and consumption has attenuated. But the revised data show that the housing slowdown has taken its toll on consumers. The single most important reason for the downgrade to consumption growth in 2005 was weaker spending on household durables like freezers. Demand for these products is closely tied to housing-market activity.

Still, house prices have picked up over the last few months. Overall, the new version of recent economic history points to a rise in rates sooner—maybe as early as August—rather than later.

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Extradition

Quaking in their pinstripes

Jul 6th 2006
From The Economist print edition

Businessmen are up in arms over an unfair treaty

WITH barely a week to go before the deadline for the extradition of three British bankers to America expires, businessmen and politicians are staging a last-ditch attempt to keep them at home. A letter blazoned across a whole page in the *Daily Telegraph* on July 5th called on John Reid, the home secretary, to stop this "unconscionable" process. David Bermingham, Gary Mulgrew and Giles Darby, known as the NatWest Three, are wanted by the Americans on fraud charges related to Enron, the bankrupt energy giant.

Rex

Awaiting their fate

The signatories, who include the likes of Richard Lambert, new director-general of the Confederation of British Industry, Chris Gibson-Smith, chairman of the London Stock Exchange, David Davis, Tory shadow home secretary, and Sir John Sunderland, chairman of Cadbury Schweppes, claim that the 2003 extradition treaty with America is "manifestly unfair". It has also, they add, been "highly damaging" to British national interests.

The treaty provides for fast-track extradition procedures with America that are similar to those already in force with 47 other (mostly European) countries. Signed in 2003, it was designed to correct imbalances that disadvantaged America at the time and bring the two countries' rules more in line with one another. But America has yet to ratify it, while Britain has incorporated its provisions in a new law. America may now request the extradition of British suspects without presenting prima facie evidence against them in British courts, but the reverse is not true. Hence the much-bemoaned lack of reciprocity.

But the real cause of the businessmen's jitters is the harshness of America's sentences and jails next to Britain's softer set-up. Tony Blair now says that he will support attempts to get the three out on bail, if they are extradited. The Liberal Democrats, for their part, introduced a bill on July 6th to disable the treaty.

The bill will go nowhere but that will not be the end of the matter. After the European Court of Human Rights refused to suspend the NatWest Three's extradition last week, around 100 besuited gentlemen marched to the Home Office to protest. They fear it could be their turn next—and they will not go gently.

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Education and special needs

A third way on inclusion

Jul 6th 2006
From The Economist print edition

Schools are struggling to help children with learning problems

SHOULD England's 1.5m children with “special educational needs”—from dyslexia through behaviour dysfunction to severe medical conditions—be educated in mainstream classrooms rather than in specialist schools? For years education professionals have believed that they should. But this week “inclusion” suffered a body blow. In a long-awaited report, the all-party parliamentary committee on education concluded that the system is hardly “fit for purpose.”

At first glance inclusion seems an uncontroversial aim. Its supporters say that segregating disabled children in special facilities keeps them from achieving their educational potential and developing social skills. Mary Warnock, an academic who later became a peer, led the crusade for inclusion. She argued also for a system of “statementing”—getting professionals to assess children's special requirements and then providing extra resources for them. Her ideas became law in the 1981 Education Act, although the money, under a Conservative government, lagged behind.

Labour, in power from 1997, proved even keener. In a strategy paper in 2004, it declared that “the proportion of children educated in special schools should fall over time.” Ministers have put more cash (about £1.5 billion since 2002) into educating children with special needs, much of it in ordinary schools. Through the “School Action Plus” programme, mainstream schools were told to identify children with problems and give them extra help.

Thanks to these policies from both main parties, the number of pupils taught in special schools has fallen dramatically, from 131,000 in 1979 to 90,000 last year. The number of “statemented” children who are legally entitled to specific help, has fallen too, by 8% since 2001.

But many mainstream schools are struggling. Children with special needs now account for between a tenth and a quarter of an average intake. Yet schools do not always earmark extra cash for them, and many pupils do not get the help they need. Their numbers have increased too, partly because medical advances have allowed more children with severe problems to survive. Teachers are not trained for the widening range of conditions defined as educational disabilities. A growing number of pupils are autistic or have behavioural problems, and hence are disruptive: two-thirds of all those suspended from school have “special needs”. Teachers are increasingly fed up with inclusion.

So too are many parents of disabled children. Pupils with physical disabilities or milder learning problems can thrive in mainstream schools but others are unhappy, especially at secondary level. Many would prefer specialist schools. Lady Warnock has also changed her mind: last summer she published a pamphlet arguing that inclusion had gone “too far”. The Conservative Party, led by the father of a child with cerebral palsy, agrees.

What is the next step? Andrew Adonis, an influential education minister, wants to redefine inclusion. His new vision is of “third-way provision”—special units located within ordinary schools so that pupils with special needs can mix with the others for some lessons but be protected from the chaos of school life for others. He says that the government does not have a policy of closing special schools, although some may amalgamate. Cash—as always—may prove king. Special facilities cost up to ten times as much as mainstream ones.

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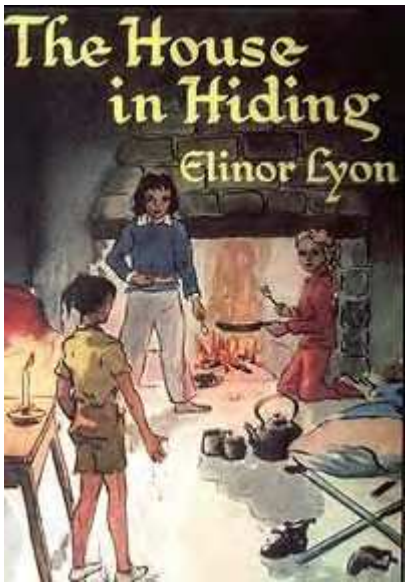
Classic children's books

Is Billy Bunter doomed?

Jul 6th 2006
From The Economist print edition

How publishers are rescuing lost children's classics



JAM tarts, for many 30- and 40-year-olds, are all the more delicious because they were regularly scoffed by the greedy hero of the Billy Bunter books. Not for today's children, though, since his antics have fallen out of print. So too have the hare-brained inventions of Norman Hunter's eccentric Professor Branestawm, drawn in elaborate detail by William Heath Robinson. If parents have not kept their own childhood copies, they cannot share these delights with their children—unless they are willing to buy costly second-hand versions.

But help is on the way, in the form of a new cottage industry dedicated to republishing lost classics for the next generation. The publishers, mainly women, snap up for a pittance the rights to books languishing on publishers' back-lists. They sell online, and say they are making good money.

Jane Nissen, who used to be an editor at Penguin, now runs a company specialising in lost gems. In the past four years she has re-issued "Fattypuffs and Thinifers", in which André Maurois narrates a war between fat and thin chaps, "Kings and Queens", a comic history by the poet Eleanor Farjeon and her brother Herbert, and "The Wind On The Moon" by Eric Linklater. Miss Nissen lives with a limited print run and forgoes colour printing, unlike larger publishers.

Others have homed in on a slightly different market—older readers who are themselves nostalgic for the books they loved as children. Ladies of a certain age delight in the niche marketing of Girls Gone By Publishers, a firm that re-issues boarding-school romps. The publishers even organise an annual conference with star authors whose books have been saved from oblivion.

One such is Victoria Clayton. She wrote two well-received children's books under her maiden name, Victoria Walker, then married and turned to adult fiction instead. Her juvenilia fell out of print for 30 years, until enthusiastic bloggers rediscovered her.

Vanessa Robertson, the owner of Fidra Books, is republishing Miss Walker's "The Winter of Enchantment" in time for Christmas. She says her biggest thrill is tracking down long-lost authors and finding out that they are not dead, but—like Elinor Lyon, another rediscovery—have merely gone to live in Wales.

Save these books

Title	Author
The Midnight Folk	John Masefield
The Otterbury Incident	C. Day Lewis
101 Dalmatians	Dodie Smith
Bedknobs and Broomsticks	Mary Norton
Professor Branestawm series	Norman Hunter
Billy Bunter series	Frank Richards

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Railways

Cattle class

Jul 6th 2006
From The Economist print edition

A popular but expensive system requires some hard decisions

Get article background

BRITAIN'S rail network has long been the butt of bitter jokes about late trains and shoddy service. Yet travellers seem to be ignoring them. Passenger numbers have risen by 40% in the past decade and are forecast to rise by another 30% over the next ten years. This newfound popularity is causing problems on the busiest part of the network, where there are now too many passengers and not enough seats. Across the entire railway system, overcrowding in 2005 was only just below the government's limit of 3% more passengers than rated capacity. On the busiest commuter lines, the limit is regularly flouted.

Restricting demand is difficult, for the government caps fares on the most popular routes. When the train companies suggested last year that prices should rise, outraged newspapers accused them of wanting to "price people off the railways".

The other solution is to increase supply by boosting capacity. Network Rail, which owns the rail infrastructure, suggested exactly that on July 3rd, when it published its business plan for the funding cycle from 2009 until 2014. After trumpeting planned cost savings of £4 billion over those five years, it suggested spending an extra £8 billion to upgrade stations and lay new track.

Spending more to relieve crowding will appeal to cramped commuters. But it will horrify ministers, who are already keenly aware of the railways' ballooning costs. At the turn of this century, the railways cost taxpayers £1.4 billion a year to run. Today the cost is nearer £5 billion, thanks to stricter safety requirements after the Hatfield crash in 2000 and higher maintenance charges. But even these enormous sums do not buy much: railways account for 40% of the government's total transport budget but only 8% of the journeys made.

So far ministers have avoided talking about how much the railways cost. When Alistair Darling, the previous transport secretary, was sent to the department in 2002, part of his remit was to keep it out of the news. With the public finances tightening, however, and passenger numbers continuing to rise, that is getting harder.

One way to improve things would be to spend railways' existing cash more rationally. Stephen Grant, a rail consultant, points out that rural services receive 60% of the subsidy but account for only 16% of passenger kilometres travelled. "A lot of these trains are maintained to the same standard as 90-mph main-line services," he says. "But all they do is potter up and down a branch line all day."

Some fear the government is considering more radical measures than lighter maintenance. New laws proposed last year included provisions for closing down underused lines. Though ministers say they have no immediate plans to do so, rail boosters fear the spectre of Dr Beeching, the man who axed nearly a quarter of the system 40 years ago. They defend rural trains on the grounds that these provide vital transport links for the poor and carless.

So, though, do bus services, and at a fraction of the cost. Closing little-used, expensive lines would free money to spend on carrying passengers into cities rather than moving fresh air around the countryside. Old lines can be re-used as cheaper light-rail systems, or paved over and converted into bus-ways, an idea that is being tested in Northamptonshire. Even without all that, says Mr Grant, closing a line can bring more benefits than costs. He points to the Camel Trail, a popular cycle path and bridleway in Cornwall that runs along the bed of an old railway. Its value as a tourist attraction, he says, is much higher than it would be as a railway line.

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Northern Ireland

Peace dropping slow

Jul 6th 2006 | BELFAST
From The Economist print edition

A small step towards reconciliation

IN SEPTEMBER, builders permitting, 20 families, including Catholic/Protestant couples and immigrants, will move into new council houses in the small town of Enniskillen, in County Fermanagh, where they will sign a “good neighbour” agreement. Since this is bitterly divided Northern Ireland, neighbourliness means more than keeping the noise down late at night.

The new tenants will promise Northern Ireland's Housing Executive to try to make friends. They will also pledge not to fly paramilitary flags or paint murals and graffiti, which indicate single-culture districts where anyone different is at risk. Social scientists and “conflict mediators” advised on the little estate, but the contribution that mattered most came from the families who asked for “mixed” housing in the first place.

Couples who span the sectarian divide between Protestants and Catholics (as well as immigrants from ethnic minorities) have had good reason to shun public housing. More than 97% of it is segregated, partly because most people want it that way but also as a result of intimidation during the Troubles.

Mixed couples have long been targets for both Catholics and Protestants. Black, Chinese and eastern European arrivals also suffer a level of racist attacks which some believe is higher than in the rest of Britain. Around 600 families, most of them in Belfast, tell the Housing Executive that they would prefer mixed estates. But the city has many sectarian interfaces and conflicting housing demands: overcrowded Catholic neighbourhoods next to dwindling Protestant districts that nevertheless remain fiercely territorial. The Enniskillen scheme is the first in more than 40 years to challenge segregated patterns.

Set between two lakes, the town was chosen mainly because it has a reasonable mix of Protestants and Catholics, as well as two thriving integrated schools. A second estate is planned for 2008 in Loughbrickland in County Armagh.

Both towns welcome the plans, not only to speed reconciliation but also for economic reasons. Brendan Murtagh, an environmental planner at Queen's University and one of the Housing Executive's advisors, argues that areas that are most mixed show the greatest social and economic progress.

Nourishing tolerance is a particular priority in Enniskillen because Fermanagh's lakes attract many of Northern Ireland's tourists. Local politicians of all hues want to encourage visitors. They also want to bury the memory of the IRA bombing in 1987 at a Remembrance Day ceremony in Enniskillen, which killed 11 Protestants and injured many more. Some hear calls for reconciliation as attempts to whitewash a republican murder. But few could object to a score of diverse families who are willing to live together.

If the first schemes work, the executive has other towns in mind, with difficult Belfast somewhere down the line. Attempts to re-float the devolved Stormont Assembly may be bogged down, but elsewhere Northern Ireland is moving forward.

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Bagehot

A question that can no longer be avoided

Jul 6th 2006
From The Economist print edition

Ignoring the West Lothian question has ceased to be an option. The problem is finding an answer

PERHAPS it was all those plastic cross-of-St George flags flying from each passing car before England's Rooney-less football team lost in Gelsenkirchen last weekend. Or perhaps it was the antics of the Scottish first minister, Jack McConnell, who had declared that he would be backing any country in the World Cup which found itself up against the lads with the three lions on their chests.

But even Ken Clarke, who enjoys nothing more than stirring things up, must have been surprised by the reaction to his announcement in a newspaper interview that the next Conservative government would stop Scottish MPs from voting on legislation that affected only England. Mr Clarke, who heads the Tories' democracy commission, was only sticking with what the party had promised in its last two election manifestos.

But in politics timing is everything and all around there are signs that the so-called West Lothian question, first raised by the member for that part of the world, Tam Dalyell, nearly 30 years ago, can no longer be ignored. Mr Dalyell's "question" was posed during the debate on Scottish and Welsh devolution in 1977. "For how long", he asked, "will English constituencies and English honourable members tolerate...at least 119 honourable members from Scotland, Wales and Northern Ireland exercising an important, and probably often decisive, effect on British politics while they themselves have no say in the same matters in Scotland, Wales and Northern Ireland?"

With the defeat of the devolution referendums in 1979, the issue lay dormant until the return 18 years later of a Labour government intent on reviving devolution. When it was raised again after the devolution settlement in 1998, the government's attitude was summed up by Lord Irvine. With characteristic complacency, the Lord Chancellor harrumphed that the best solution to the question was to stop asking it. That seems to be an approach that Tony Blair and most of the Labour establishment are still content to go along with.

So far, the government's only response to the constitutional anomaly caused by Scottish and Welsh devolution has been to offer English regions their own elected assemblies with a few limited powers. But not even John Prescott's persuasive powers could get that turkey airborne. The deputy prime minister's big idea was shelved in 2004 after voters in the north-east decided four to one that they did not want an expensive talking shop.

Since then Gordon Brown has gone to embarrassing lengths to talk up Britishness and Mr Blair has responded to questions about the “question” by arguing that it would be unworkable to have two classes of MP at Westminster. Whether or not Mr Blair is right, of which more later, he may also be calculating that this is one thorny long-term issue he doesn't have to deal with before he departs. But for several reasons it is not going to go away.

Because of Labour's abnormally large majorities in 1997 and 2001, there have been only two occasions—the votes on university tuition fees and on foundation hospitals—when the government needed the support of Scottish MPs to overcome rebellious backbenchers and secure legislation that did not extend to Scotland. With a much smaller majority since 2005, and the prospect of an even closer election next time, Labour's dependence on its MPs in Scotland (who currently number 39) to pass laws that apply only in England will surely increase.

The quantity of Scottish ministers in Mr Blair's cabinet is also a growing presentational problem for the government. John Reid, as health secretary, presided over a system different from the one used by his constituents and now, as home secretary, is responsible for England's policing and criminal-justice system but not for Scotland's. At transport, Douglas Alexander, like his predecessor, Alistair Darling, makes policies that have no bearing on the people who sent him to Westminster.

Assuming that Mr Brown becomes prime minister, a large part of the manifesto he hopes will persuade voters to confirm him in his job will not apply in his Kirkcaldy & Cowdenbeath seat. Unhappiness with Scottish over-representation is also feeding resentment over the so-called Barnett formula, under which each Scot receives £1,500 ($2,800) more per head in public spending than those south of the border. In a recent poll, 55% of people in England thought it wrong for a Scottish MP to become prime minister.

What price the union?

The Tories' purpose in drawing attention to these anomalies may be blatantly party political but the situation is almost impossible to defend. The difficulty, as always, is finding a cure that is not worse than the affliction. At first sight, the Conservative proposal that only MPs with constituencies in England should be permitted to vote on exclusively English laws seems fair and sensible. Polls, moreover, suggest that it enjoys considerable public backing, even in Scotland.

But as Robert Hazel, author of “The English Question”, points out, technically there is no such thing as an “English law”. Attempts by the Speaker of the House of Commons to rule on which votes should be exclusively English would be bitterly contested. It would also result in chronic instability. It is all too easy to imagine a Labour prime minister trying to do business with a Tory leader at the head of a dominant English faction. As Mr Hazel argues, it would effectively mean an English parliament operating within the shell of Westminster.

There are alternatives, such as greatly reducing the number of Scottish and Welsh MPs, but none has much support. That being so, the Tories must answer a question of their own. If the price of finding a solution to the West Lothian question is the destruction of the union, with all that this might entail, would they be willing to pay it?

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Too much for one man to do

Jul 6th 2006
From The Economist print edition

Reuters

Pakistan needs more democracy to make it a less dangerous place, says James Astill

Get article background

THINK about Pakistan, and you might get terrified. Few countries have so much potential to cause trouble, regionally and worldwide. One-third of its 165m people live in poverty, and only half of them are literate. The country's politics yo-yo between weak civilian governments and unrepresentative military ones—the sort currently on offer under Pervez Musharraf, the president and army chief, albeit with some democratic wallpapering. The state is weak. Islamabad and the better bits of Karachi and Lahore are orderly and, for the moment, booming. Most of the rest is a mess. In the western province of Baluchistan, which takes up almost half of Pakistan's land mass, an insurgency is simmering. In the never-tamed tribal areas bordering Afghanistan, the army is waging war against Islamic fanatics.

Nor is that all. Pakistan has nuclear weapons, and until recently was selling their secrets to North Korea, Iran, Libya and maybe others. During its most recent big stand-off with India, in 2002, Pakistan gave warning that, if attacked, it might nuke its neighbour. Mostly, however, in Kashmir, Afghanistan and its own unruly cities, Pakistan has used, and perhaps still uses, Islamist militants to fight its wars—including the confused lot it is fighting, at America's request, in the tribal areas. Several thousand armed extremists are swilling around the country. Thousands more youths are being prepared for holy war at radical Islamic schools. Osama bin Laden is widely believed to be in Pakistan.

When General Musharraf launched his coup in 1999, it was not—or not principally—to clean up this mess. Instead, he wanted to save his career, having been sacked as army chief by Nawaz Sharif, then the prime minister. Mr Sharif had tried to subordinate the army—which in Pakistan is a parallel state, some say the only state—to civilian rule. But however unpromising his start, General Musharraf has generally proved much better at running the country than either Mr Sharif or Benazir Bhutto, Pakistan's other elected leader in recent times. He also remains more popular than either of them, though his support has recently been slipping.

General Musharraf's shopping list

General Musharraf inherited an economy in crisis. Shackled by sanctions and parched of capital, Pakistan had defaulted on foreign debts. He ensured that the country did what the IMF told it to do, and ended the crisis. Thanks partly to continued fiscal prudence and some sensible reforms, Pakistan has notched up average growth of 7% over the past three years, about the same as India.

It also helped that after the attacks on America on September 11th 2001, General Musharraf decided to stop supporting the Taliban government in next-door Afghanistan and grant America access to airbases from which to fight it. The benefits have not been confined to a surge of American aid dollars that boosted the growth figures. Having joined the “war on terror”, the general reined in Islamist militants fighting India in the disputed Kashmir region. He then surprised many by throwing himself into peacemaking with India. Peace on the subcontinent is still hard to imagine, but it may be more possible than at any time since British India's bloody partition.

This is encouraging. But a bigger concern for most Pakistanis is the state of their broken and predatory institutions, which have helped to make Pakistan unstable and prone to extremism. General Musharraf pledged to fix them, and to promote liberal values, or “enlightened moderation”. If he were to make serious progress towards either of those goals, history would smile on his coup.

But this survey will argue that General Musharraf is unlikely to deliver on these crucial promises. He has introduced many sensible reforms, such as making the lowest level of the judiciary independent. But they have almost all been implemented only partially and corruptly. Part of the problem is that General Musharraf does not rule Pakistan by fiat, though he often seems to think otherwise. He rules behind a façade of democracy. Thus, for example, he has rewritten the constitution in his favour, allowing him to sack the government and impose martial law; but he needed political allies to vote through those changes. Such alliances have led to paralysing compromise.

To sideline the mainstream parties, whose leaders he fears, General Musharraf has sought support from religious conservatives, so his liberal reforms have gone nowhere. With the same intent, he pandered to Taliban-friendly Islamic parties, helping them win unprecedented power. Moreover, General Musharraf has clung on to his job by the same undemocratic measures as his predecessors: by manipulating the institutions he had vowed to clean up. Only, unlike any civilian leader, he has the army behind him, which means he can do that much more damage. Whereas Mr Sharif and Ms Bhutto packed the supreme court with their supporters, General Musharraf sacked half its judges for refusing to swear allegiance to him.

Pakistan is too big, too fractious and too complicated to be ruled so overwhelmingly by one man. General Musharraf has been lucky to survive three assassination attempts, and his succession is unclear. He has, moreover, limited time at his disposal to get to grips with an unlimited number of problems. His period in office has been littered with initiatives—a diplomatic proposal to India here, a promise to reduce the army there—that never got off the ground or fizzled to nothing for want of the general's attention.

And even if he had unlimited time, he has limited understanding. In army fashion, he considers Pakistan's problems to be mostly practical. But they are invariably political. To deal with a mounting

water crisis, for example, General Musharraf has decreed that three long-stalled dams will be built in Punjab and North-West Frontier Province. In Sindh province, the lower riparian, this has caused uproar. Sindhis say their water supply will be diminished by the dams; General Musharraf says it will not. He has no patience for the Sindhis' distrust of the Pakistani state. They complain, with good reason, that it is dominated by Punjab, Pakistan's most populous province, where most of the army is raised. Sindhis make up about a quarter of Pakistan's population, but hold only a couple of the top 50 jobs in the water ministry. If General Musharraf wants the dams built, he should start by increasing that number.

Pakistan is torn by such grievances. Where people feel unprotected by their government, regional strife and Islamic militancy have bred. The longer they are allowed to fester, the more unstable Pakistan will become. Neither General Musharraf nor his obvious rivals for the leadership, Ms Bhutto and Mr Sharif, could heal these rifts. But then Pakistan does not need a saviour to become stable and well. It needs a sustainable political system, representing the majority of its people. General Musharraf has had some successes. But by sabotaging Pakistan's fragile democracy, he may well have made the country even more dangerous.

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Changing its stripes

Jul 6th 2006
From The Economist print edition

Under General Musharraf the economy has turned more tigerish, but foreigners remain wary

SHORTLY after his coup in 1999, General Musharraf unveiled a “seven-point agenda” to save the nation. He vowed to do all the right things: revive a sick economy, reduce corruption, rebuild national confidence and so on. But a year later he had made so little progress that *The Economist* labelled him a “useless dictator”.

Six years on General Musharraf is still in charge, and the economy has been transformed. In the financial year to mid-2005 it grew by 8.6%, the highest figure for two decades, followed by a 6.6% rise in the financial year just ended (see chart 1). The stockmarket index in Karachi has risen by over 1,000% since 1999. Pakistan has $13 billion in foreign reserves, up from $1.7 billion in 1999. The rupee is stable. Public debt as a share of GDP is 54%, down from 80% in 2000. One-third of the population is still poor, but at least the figure has not increased recently.

In retrospect this newspaper's verdict of six years ago looks too harsh, but mainly for a reason that no one could have predicted. The Pakistani most responsible for the economy's brilliant turnaround, it might be argued, was not General Musharraf or his technocratic prime minister, Shaukat Aziz. It was an ethnic Pakistani currently in American custody, Khaled Sheikh Mohammed, the architect of the attacks on September 11th 2001.

Before that day, Mr Aziz, then the finance minister, had been struggling bravely, launching a few liberal reforms, slashing import tariffs and energy subsidies, introducing a sales tax and stepping up privatisations. On the eve of the terrorist attacks on America, Pakistan had just about met the terms of an IMF programme, but investment remained low and debt high. In 2001 the economy grew by 2%, barely more than the population, and one-third of the budget went on debt-servicing. Then Mr Mohammed's plan came off, and Pakistan's world changed.

America wanted Pakistan as an ally and was prepared to pay. It gave $600m straight up, promised to forgive $2 billion of debt and persuaded other creditors to go easy. Some of Pakistan's debt was already due to be rescheduled; America ensured that the terms were generous. In December 2001 the IMF agreed on a $1.3 billion facility. Meanwhile remittances rocketed, especially from Pakistanis in America, reflecting fears that Christian countries might freeze Muslim assets. Remittance flows also became more visible as America cracked down on the informal *hawala* money-transfer system, which it thought was being used by terrorists.

This fiscal reprieve, combined with sensible reforms in the banking sector and plenty of spare capacity, provided the basis for Pakistan's burst of growth. As the economy recovered, capital flight was reversed, leading to speculation in land and stocks. Low interest rates and more readily available consumer credit encouraged middle-class Pakistanis to join the rush. Where they bought land, some built houses, contributing to a modest construction boom. Private consumption has more than doubled in the past two years as households have treated themselves to long-coveted durable goods. Last year they bought 600,000 refrigerators, against only 35,000 in 1999.

Agriculture, which makes up 22% of the economy, has performed fairly well, thanks to helpful weather that boosted farm output in 2005 by 7.5%. Textiles, which account for 60% of total exports, have grown by 20% since global trade quotas were lifted at the start of last year, rewarding several years of heavy investment in the sector.

This is a hopeful time for Pakistan. But the country has been here before. In both the 1960s and the 1980s, the economy

sustained annual growth of over 6%. Those periods, too, saw military rule—which brought relative stability—and lashings of aid dollars. The first general in charge, Ayub Khan, managed the economy well; the second, Zia ul-Haq, did not, but was also blessed with a rush of remittances, from the Middle East. Both periods were followed by a decade of civilian misrule during which donors and investors withdrew, growth dropped to 4%, and millions of people were pitched into poverty. Will General Musharraf leave behind a more solid basis for growth?

The good part

He might. Since 1999, his government has privatised $5 billion-worth of assets. It has doubled the number of taxpayers, albeit from a pathetically low base of 1m. It has simplified the tax system, a bit: according to a World Bank survey published last year, the average entrepreneur was still stung for 32 separate payments, equal to 57% of his gross profits. The government has made itself much more accessible to businessmen, who mostly sing its praises—especially those who are also in the government. It gets particularly fervent support from the sugar industry, which is protected and almost entirely owned by politicians operating a cartel. The government has also promised, in the budget unveiled on June 5th, to double spending on development (things such as health and education) to around 5% of GDP.

This is not a bad record, especially when compared with that of General Musharraf's predecessors. But if he is to fulfil a pledge to cut poverty significantly, he must maintain the current level of growth. The government has set its latest target at 7%, but that looks impossible. Investment, at around 20% of GDP, is still lower than it should be. Although foreign direct investment last year was an encouraging $3.5 billion, or about 2.7% of GDP (see chart 2), this was boosted by privatisations. A lot of foreign money also went into telecoms, where profits come through quickly. Savings account for a modest 15% of GDP. The consumer boom—along with high-cost oil, of which Pakistan has little—has caused imports to double in the past four years. Exports, dominated by low-value textiles, cannot keep up. Last year, the trade deficit widened to $11.5 billion. To finance it, the government will have to eat into its foreign-exchange reserves, and eventually may have to devalue the rupee. But this will exacerbate another ugly effect of consumer-led growth: inflation. Currently at 8%, it squeezes the poor.

In Lahore's Anarkali bazaar, Mohammed Javed, a third-generation goat-head salesman, is grumbling. He reckons that four years ago he sold 200 heads a day at 25 rupees each; now he struggles to sell 20 at 60 rupees each. His explanation: “The poor can't afford meat, only dal and rice.” Other traders tell of similar woes, and auto-rickshaw wallahs are idle—unable, they say, to find customers at the price they must charge to cover the increased cost of petrol. Only Nasir Anjam, a mobile-handset salesman, is doing well: “We're the latest fashion; even beggars are buying my phones,” he says.

The hard bits

To sustain 7% growth, Pakistan will need much more foreign investment, but there are one or two reasons why this will be difficult. For a start, Britain and America, Pakistan's biggest donors and portfolio investors, advise their citizens not to visit the country because there is a risk that they might be killed by Islamist militants. Since 2002 America's State Department has forbidden the families of its diplomats in Pakistan to visit them. Several American diplomats have been murdered in Pakistan, most recently in March, in a suicide bomb attack near the American consulate in Karachi. All this conveys a skewed

picture of life in Pakistan, with its thronged beaches in Karachi, classy fashion shows in Lahore and embarrassingly generous hospitality everywhere. But it is not inaccurate.

Those businessmen who brave the risks face other problems too. In the cities, and especially in Karachi, there is not much in the way of law and order. The rich can shield themselves from bother, by buying private security or favours from policemen, but their workers cannot. Justice is also for sale, but this takes longer. The World Bank recently rated Pakistan 134th among 155 countries for ease of enforcing contracts, which on average took 395 days. Salman Raja, a commercial lawyer in Lahore, thinks these figures are optimistic. He says that many straightforward disputes take a dozen or more years to settle. Sometimes a plaintiff despairs of the whole process and shoots his adversary dead.

Straightening out Pakistan's police and judiciary were also on General Musharraf's priority list. Both featured in a complex package of local-government reforms introduced in 2000, but neither emerged much the better for it. The general scrapped the post of deputy commissioner, a powerful civil servant who ran the police and served as magistrate at the district level. In his place, he created an elected mayor, or *nazim*, who was charged with overseeing a more autonomous police force. Judicial responsibility passed to professional judges, who were also subjected to a massive clean-up designed, run and paid for by the Asian Development Bank. Similar changes were made at the higher provincial level.

On paper, these reforms looked fine, but they soon ran into a sludge of vested interests. General Musharraf's political supporters have rigged local elections to ensure the election of *nazims* loyal to the government. And local and provincial politicians now have direct control over the police, which is helpful for winning elections but not for building an independent police force.

In the matter of judicial reform, the vested interests are General Musharraf's. In 2000 he dismissed 13 senior judges. He then got the remaining top judges to decree that his coup was not, after all, treason for which he must hang, but perfectly legal and necessary. Loyal senior judges remain useful to the general in many ways, especially at election time—which may be one reason why he has not attempted to reform the high courts.

Such political legerdemain is an indictment not only of General Musharraf but of Pakistani politics as a whole. Unlike his civilian predecessors, the general has at least made a serious attempt to improve the country's rotten institutions. His next target for reform is education, which is in a desperate state. Half of all Pakistanis are illiterate. That may include some teachers, who are also political appointees. In a recent survey of 15,000 schools in the Punjab, the education ministry found that in 4,000 of them no teacher was present. Mr Aziz, a tireless salesman, is right to point to Pakistan's cheap and plentiful labour as a potential tool for sustained high growth; but those workers would be even more useful if they could read.

To that end, General Musharraf has pledged to double education spending as a share of GDP, to 4%. But it will take more than cash. For example, thousands of useless teachers will need sacking—the sort of political challenge the general has shirked in other areas. Nor do all of Mr Musharraf's political allies actually want their compatriots to be educated. One minister, a rising star, was recently overheard vowing to stop any school being built on his land in Punjab; he feared that bookish serfs might demand a decent wage.

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Parliamentary puppetry

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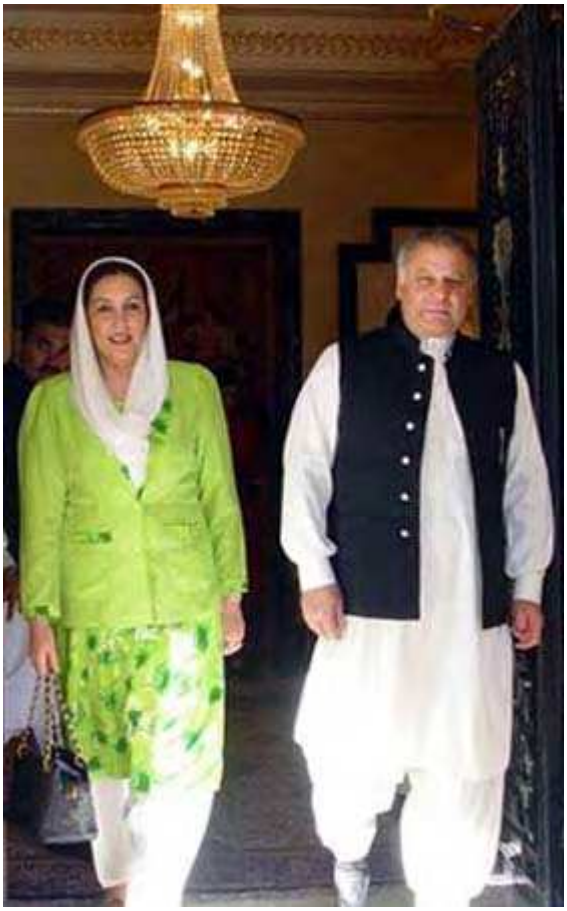
From The Economist print edition

The messy business of Pakistani politics

“THERE is a whiff of shame, something repugnant, in the cabinet,” says a former minister, who recently left the government. Where to begin? The government has 63 ministers in all, a record number for Pakistan; almost as many as in India, with a population seven times bigger. But unlike in India, Pakistan's ministers take few important decisions. From foreign relations and counter-insurgency in the tribal areas to devolution and civil-service reform, everything that matters is decided in Army House by General Musharraf and his coterie of advisers. The cabinet includes a few key technocrats such as the general's favourite, Mr Aziz, who had little political experience before he was made prime minister in 2004. Mr Aziz cannot control his ministers, who include many opportunists gathered around a clan of conservative Punjabi landowners.

Reuters



Bhutto and Sharif make unlikely allies

Most of these defected from Mr Sharif's Pakistan Muslim League party to join the party that General Musharraf's agents founded for him, Pakistan Muslim League (Quaid-i-Azam), or PML-Q. Pakistanis call it the “king's party”. Other ministers left Ms Bhutto's Pakistan People's Party (PPP), having been offered inducements or threatened with prosecution for past corruption. Indeed, several had already been convicted. The interior minister, Aftab Sherpao, formerly of the PPP, was in exile in London at the time, having been found guilty of graft. Compelled to declare their assets, Mr Sherpao and eight other ministers recently claimed they owned neither a house nor a car.

The national assembly often fails to get the 25% attendance needed for a quorum. Ministers rarely turn

up for the daily “question hour”, when the government is supposed to justify its policies to the opposition. After all, the most important policies are introduced by presidential decree, as ordinances. These can be issued only when parliament is in recess, so it is often suspended. Technically, parliament has to pass an ordinance into law within four months or it becomes void. But as PML-Q and its allies cannot always muster a majority, and do not support General Musharraf's more liberal proposals, this seldom happens. In almost seven years in power, the general has issued 44 ordinances, five of which have been passed into law. The others are renewed by decree every four months—or perhaps not; Pakistanis are rarely informed. Confusion envelops large areas of law, as it envelops parliament. “People are at a loss to know what this parliament does,” says Sherry Rehman, an elegant PPP member who likes to blow her cigarette smoke in the faces of the assembly's mullah members.

So this is a Punch and Judy democracy show, reminiscent of those put on by a succession of earlier uniformed and civilian puppeteers. General Musharraf has proved himself as skilful as any of them. In 2002, three years after seizing power, he held a referendum on his rule in which he got a 98% approval rating. It was so grossly rigged that he apologised on national television for the “excesses” of his supporters. Yet he proceeded to hold general elections in a similar spirit. He cannibalised Mr Sharif's party to staff his new PML-Q. Nominally Pakistan's independence party, the Pakistan Muslim League has been co-opted by successive military rulers, each forming his own faction. The election was contested by six different PMLs.

The PPP, Pakistan's nearest thing to a national political party, was much harder for General Musharraf to co-opt. It was formed in 1967 under Zulfikar Ali Bhutto, who was ousted as prime minister in 1977 by General Muhammed Zia ul-Haq and subsequently hanged. Under the leadership-in-exile of Ms Bhutto, Zulfikar's daughter, the PPP's support has held up surprisingly well. It is strongest in Sindh, the Bhuttos' ancestral land, but to some degree it has become a rallying-flag for all Pakistanis who object to the army's political meddling. Had Ms Bhutto returned from exile to fight the 2002 election, with Mr Sharif's party in ruins, she would have won. General Musharraf kept her out by banning any fugitive from justice from being a candidate and, just to be on the safe side, by stopping anyone from serving more than two terms as prime minister. Both Ms Bhutto and Mr Sharif had already held the job twice. He also decreed that the president could dismiss the government.

Tricks of the trade

To rig the election, General Musharraf's supporters used the standard tricks of every incumbent government in Pakistan, as well as some available only to generals. The key to winning elections is to ensure that judges in the provinces are sympathetic, because they appoint the magistrates who conduct the polls in the constituencies. Those who come to power through a coup, like General Musharraf, have a considerable advantage here: they can require senior judges to swear allegiance to them and sack the ones who won't. With the returning officers on his side, the rigger's job is mostly complete. In areas dominated by the opposition, a friendly returning officer may well put polling stations in inaccessible places and select compliant people to staff them. “By the time the stations are placed and the staff-list is done, almost half the work is done,” says Nawabzada Ghazanfar Gul, a PPP candidate from the Punjabi town of Gujrat. His example shows how deeply Pakistani politics is rooted in local power struggles. His clan migrated to Pakistan from Central Asia with the Mughal emperors. His political rivals, Chaudhry Shujaat and various of his relatives, belong to a subcontinental family that has prospered only since Pakistan's creation. Mr Gul describes them as “upstarts, 1947-model”.

Anwar Kamal, a venerable PML-Nawaz politician in Peshawar, offered another example of the importance of local politics. On the evening your correspondent called on him, he had just returned from a huge Pushtun tribal gathering to settle a blood-money claim against his tribe. Asked what had provoked the claim, Mr Kamal explained that he had recently led 4,000 armed tribesmen in an attack on a neighbouring tribe. They flattened a small town and killed 80 people. The fine they incurred for this was $60,000, which Mr Kamal thought was not too bad.

Even though the 2002 election was rigged in favour of the king's party, the PPP won the biggest share of the vote (but not a majority). General Musharraf, in another favourite ploy of army rulers, had made a secret pact with the six biggest Islamic parties, which his agents had organised into an alliance, the Muttahida Majlis-e-Amal (MMA). This went against the grain; the mullahs mostly hate each other. But it served them well. United against a divided opposition, and with anti-Americanism running high over the war in Afghanistan, the MMA won 11% of the vote and 53 seats in the national assembly. By badgering and buying ten PPP members, PML-Q formed a coalition government. But it was the MMA's votes that gave General Musharraf the two-thirds majority he needed to change the constitution, thereby

legitimising his coup and the scores of ordinances he had issued since seizing power. The MMA was then made leader of the opposition, even though together the PPP and PML-Nawaz formed a bigger block. It also won control of a regional government for the first time, in North-West Frontier Province, and formed a coalition government with PML-Q in Baluchistan.

The one thing that can be said with certainty about the next national election, due in October next year, is that General Musharraf's supporters will rig it. Indeed, having rigged local elections last year, implanting many loyal *nazims*, they may find this unusually easy to do. Meanwhile General Musharraf says he will remain army chief, even though he had promised the mullahs that he would not. He points out that the constitution entitles him to wear his uniform until the next election—and he should know, because he wrote it. Asked whether the uniform will go after the poll, the president ponders: “I don't know. We'll need to see, we need to cross the bridge when we reach it. I'll take decisions, I'll see the environment, and obviously I wouldn't like to violate the constitution.”

It is almost certain that General Musharraf, and very likely his uniform, will survive the election; but the colour of his next government is less clear. The PML-Q is a feuding mob, able to agree on almost nothing. As president, General Musharraf is supposed to be above party politics, yet he has often intervened to end the bickering. The party also obstructs liberal reform, which embarrasses the general. Moreover, even if Ms Bhutto and Mr Sharif remain in exile, the king's party may not win a majority at the polls. And next time the president wants to change the constitution, the MMA's votes may not be available to him. The biggest Islamic party, Jamaat-e-Islami, loathes him for breaking his promise to shed his uniform. And internationally, the mullahs' success in 2002 has made it harder for General Musharraf to present himself as an enlightened moderator. The MMA may well splinter.

But if the president has problems, Ms Bhutto and Mr Sharif would gladly trade theirs for his. In May they met in London to declare a “Charter of Democracy”, cementing their alliance and vowing, among other things, to return and fight next year's elections. In fact, their alliance is pretty unconvincing. The two leaders dislike and distrust each other. They would probably both make a deal with General Musharraf, accepting him as president, in return for a legal pardon and the dropping of any outstanding charges against them. But the president dislikes them and seems to think he can do without them, saying, “I don't think individuals who have looted and plundered the country have a place to come and govern again.”

In recent weeks, the general has redoubled his efforts to unite the PML-Q. This slightly irks America, which wants him to broaden his political base, preferably by dropping the PML-Q and working with the PPP instead—perhaps minus Ms Bhutto. It might seem cynical to want Pakistan's handful of liberal politicians, whose single achievement has been consistent opposition to army rule, to step into line behind the general. But he is anyway more likely to stick with the PML-Q.

That would be bad for most Pakistanis. The two mainstream parties performed dismally during the 1990s. In power, their rulers were as autocratic and unprincipled as General Musharraf, and more vindictive. They treated parliament with equal disdain, and managed the economy incompetently. In opposition, the respective supporters of each of them badgered the army to undermine the other. Yet they could never exert as much institutional control as General Musharraf is doing. Their candidates therefore had to win elections, rigged though they were, by appealing to voters. In the process, some political patronage percolated down to the villages.

It would be bad, too, for Pakistan's future. Already shaken, the mainstream political parties would be seriously damaged by another round of military-political puppetry. And as they have wilted, the Islamic parties have thrived.

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The future looks bearded

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Islamist militancy is alive and well

ON OCTOBER 8th 2005, earthquakes rippled across northern Pakistan and the area of Kashmir it controls, opening mile-wide fissures and sending mountain villages clattering into the valleys below. Over 70,000 people died in the debris and 3m more were made homeless. The army took days to deliver much relief, and the civil administration proved ineffective. But from one direction help came fast: hundreds of bearded Islamists, including armed guerrillas already in the area to infiltrate the nearby border with India, pitched tents and began dispensing aid.

Eyevine

The cartoon that turned serious

They are doing so still, long after most foreign agencies came and went, and Kashmiris are indebted to them. The interior minister, Mr Sherpao, has called them “the lifeline of our rescue and relief work”. The biggest Islamist charity, Jamaat-ul-Dawa (JUD), has supplied the army with medicines. After the quakes, JUD's fundamentalist helpers ferried NATO soldiers across angry rivers. Yet in April America banned the charity, which is a front for the biggest Islamist militant group in Indian-held Kashmir, Lashkar-i-Toiba. Founded by JUD's leader, Hafeez Saeed, it is banned by Pakistan, America and the UN because of its close links to al-Qaeda, and because it tried to kill General Musharraf. But Pakistan refuses to ban JUD.

There are dozens of militant groups in Pakistan, including several, like JUD, that are banned under other names. Most, including JUD/Lashkar, have roots in the Afghan *jihad* of the 1980s, when General Zia's intelligence agents armed them to fight the Soviet Union with American and Saudi cash. After the Soviet army withdrew in 1989, Pakistan sent the jihadists to Indian-held Kashmir to help wage an insurgency estimated (by India) to have claimed over 40,000 lives.

Pakistani governments also used them to fight their wars at home. They armed Sunni militants to kill Iranian-backed Shia groups, for example, and turned a blind eye when these assassins also killed Christians, Hindus and members of other Muslim sects. Some 4,000 Pakistanis, mostly Shias, are estimated to have died in sectarian violence in the past 15 years, especially in poor, swollen Karachi.

Treading carefully

From the start, General Musharraf seemed to realise that this was a mess. He denounced extremism shortly after his coup and has campaigned against it since, but selectively. He has caught scores of al-Qaeda members and handed them to America, including Khaled Sheikh Mohammed, designer of the attacks on New York's twin towers. He has turned his back on the Taliban government in Afghanistan, but arrested few of its members when they fled to Pakistan. He has sent Pakistani troops into the northern tribal areas to fight the foreign jihadists who have found refuge there (see article). He has stopped, or at least greatly reduced, support for the militant groups in Kashmir. But he has not dismantled the biggest group, JUD/Lashkar, or arrested its leaders; and sectarian murders continue. Justice rarely catches up with the killers. Though a few dozen are currently on death row, the supreme court's judges are too frightened of a deadly reprisal to hear their appeals.

There are two explanations for General Musharraf's reluctance to crack down harder, and probably both are correct. The first is that, unlike America, he distinguishes between truly dangerous militants, such as members of al-Qaeda, and those that he thinks he can control.

The second explanation for General Musharraf's half-measures is that he is afraid of the extremist groups. There may be only a few thousand active militants, but their potential support is much greater. The biggest *jihadi* newspapers, including several banned under different names, have print-runs of up to 100,000. Islamic extremists are the only political force in Pakistan easily able to rally a crowd. On February 14th, after JUD's Mr Saeed denounced cartoons of the Prophet published in a Danish newspaper, a mob rampaged through Lahore, burning hundreds of cars and foreign businesses as well as the Punjab provincial assembly. JUD thugs were in the thick of it. “They have to be squeezed systematically,” said a senior intelligence official. If confronted suddenly, “they will kill the president, the prime minister, a couple of generals, a couple of chief ministers; there will be bomb blasts all over India.”

The militants would pose a security threat to Pakistan and its region even if deprived of the state support that they have enjoyed for so long. There is no question, however, of them taking over the country soon. A heavy majority of Pakistanis, certainly outside North-West Frontier Province, are politically secular. The Islamic parties have never won more than 11% of the vote—and that was with considerable help from General Musharraf.

But Pakistan is a bigoted place, and becoming more so. That may be true of all countries with a Muslim majority, yet few have hurtled towards the Islamist edge as fast as Pakistan. Its leaders are at least partly to blame. Almost all of them, civilian and military, have pandered to the mullahs. In 1977 whisky-swigging Zulfikar Ali Bhutto banned alcohol. Under General Zia, the only sincerely pious leader, Pakistan introduced draconian *sharia* punishments, made blasphemy a capital offence and ruled that unless rape victims could produce at least four male Muslim eye-witnesses they would be held guilty of fornication, a serious crime. Ms Bhutto did not seriously attempt to repeal these laws. Nawaz Sharif tried to introduce full *sharia* law. And General Musharraf helped the mullahs to unprecedented power. The Islamic parties, it should be noted, are not much better than any other extremist group in Pakistan: their ends are the same, and so, often, are their people.

Islamists have an influence in Pakistan far greater than their vote-count suggests. Take education. At the time of its creation, Pakistan had a couple of hundred Islamic schools, or *madrassas*. Now, having failed to build a decent education system, it has accumulated between 10,000 and 40,000 *madrassas*—up to 20% of which, according to a World Bank study, teach fighting skills. The national curriculum for regular schools is infected with religious and sectarian bigotry; until recently, ten-year-olds had to learn to “make speeches on *jihad* and *shahadat* (martyrdom)”.

Pakistan's impoverished public universities are largely controlled by the youth wing of the biggest Islamic party, Jamaat-e-Islaami. At the University of Punjab, in Lahore, these ambitious religionists have banned Coca-Cola, which they call “Jews' drink”. Last year, they broke the legs of a student accused of flirting with one of his female class-mates. In Islamabad, Quaid-i-Azam University has three mosques but no bookshop. One of Pakistan's handful of serious academics spoke yearningly of the liberal scholarly atmosphere he had recently enjoyed at a conference in Tehran.

Without deep reform to Pakistan's laws and institutions, a young and rapidly growing population seems likely to continue drifting towards extremism. An increase in public disorder and in electoral support for the mullahs would logically follow. Evidence from other countries suggests that economic growth would not prevent this. Nor will elections alone: indeed, Pakistan would perhaps be more Islamist but for the

pervasive influence of its most undemocratic force, the feudal landlords, who keep rural mullahs in check.

After nearly seven years in charge, General Musharraf has overseen a few minor changes to the inflammatory school textbooks and promised a more thorough revision. “There will be no hate or teaching against any caste, sect, nationality or whatever,” says the education minister, Javed Ashraf Qazi. But given the president's lack of progress on repealing General Zia's Islamic laws, there is cause for some scepticism. True, the law ministry recently proposed changing the burden of evidence in rape cases, but its suggestion was not a liberal triumph: still four eye-witnesses, but only three of them need be Muslim males. As for *madrassas*, General Musharraf has introduced laws to bring them under closer supervision, but extremist institutions have ignored them.

The president also vowed to expel a couple of thousand foreign Islamic students, but he has not done so. The Jamia Binoria, a *madrassa* in Karachi, run by Deobandis, the sub-continent's home-grown extremists, has 4,500 students, including 500 foreigners. Sitting under whirling fans, during a break from the Koran, youths from countries including Britain, America, Canada and Australia said they had received notice last January to quit Pakistan, but the police had told them to ignore this.

Some liberal progress may yet emerge from General Musharraf's rule. If he fulfils his promise to improve regular schools, he may put many of the *madrassas* out of business. He has also liberated the media, prompting a proliferation of television stations that are giving Pakistanis more and better information about the outside world. Mullahs feature in many televised debates, and some of them sound quite sensible. One such pundit, Javed Ahmed Ghamidi, is no liberal: he supports the use of Islamic punishments, including amputations in extreme cases. He is scathing about America's recent foreign policy, but also about his own country's Islamic laws and Islamic parties. Having received death threats from JUD's Mr Saeed, he has only recently emerged from hiding. But unlike General Musharraf, Mr Ghamidi is a passionate democrat. “Pakistan should be a democratic state, neither secular nor Islamic,” he says.

Across Pakistan, roads are being excavated and optical-fibre cables laid. Television viewers can increasingly receive foreign stations, including Indian ones. Pakistani television stations are already putting out lots of Indian music videos, and in May for the first time broadcast a couple of carefully selected (and not terribly good) Indian films. Pakistan's beleaguered liberals are hoping for a cultural return from the Middle East, where General Zia dragged them. According to Khaled Ahmed, a Pakistani columnist: “If we lost our culture through Talibanisation in the west [of the country], we can get it back from India, where our culture is still alive.”

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Tribal troubles

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A small war on the Afghan border

AS THE gunsmoke cleared after an attack by local Islamist guerrillas, called the Pakistan Taliban, soldiers at a wild outpost in North Waziristan found the corpses of 45 militants and four of their comrades. One of the soldiers had been decapitated alive. His missing head was later found in a captured militant's satchel.

The army is fighting a small war in North Waziristan, one of seven tribal agencies along the border with Afghanistan where it has deployed 80,000 troops. Neighbouring South Waziristan had been equally violent until, in late 2004, the army bribed local Taliban leaders to stop attacking it. These extremists have since set up an administration of sorts, having first murdered 150 of the tribal elders through whom the government used to rule.

Until 2002 the army had never entered the agencies, which are home to 6m xenophobic Pushtuns. They are run along quasi-colonial lines by a powerful civil servant, known as the political agent, whose duty is to keep the tribes quiet. Working through state-sponsored local elders, he has a pot of cash to reward good behaviour, arbitrary powers to punish transgressors—and little need to account for his actions. His main power is to exact collective punishment. When a crime is committed, the political agent can demolish houses and jail people—including children—at random until the tribe concerned delivers the alleged culprit.

For Pakistan's government—as for the British in their day—this was a cheap and effective way to control hostile, never-subjugated tribes. It also made it easier for Pakistan's government to capitalise on the tribes' twin passions for Islam and fighting. Flying the flag of *jihad*, it has used the tribesmen to fight in all its wars: against India, several times, and against the Soviet army that invaded Afghanistan in 1979. During the decade that followed, Pakistan armed and trained the tribesmen to fight alongside their Afghan cousins and motley foreign Islamic extremists such as Osama bin Laden. After the Soviets withdrew, Pakistan sent the tribesmen to conquer Afghanistan for it, in the ranks of a new Islamist army: the Taliban.

This policy ran into trouble after America invaded Afghanistan in 2001 and the Taliban and its foreign friends, including several hundred al-Qaeda members, fled to the tribal areas. At America's request, Pakistan sent troops into the agencies to prevent the tribal fighters launching attacks on Afghanistan, and to kill the foreign militants among them. America has underwritten the operation, including payment of compensation to the families of any casualties. At first there were few, but since the army entered South Waziristan in 2004, around 600 soldiers, and even more militants, have been killed, according to (admittedly unreliable) official figures.

For America, this operation is the acid test of Pakistan's commitment to battling terrorism. But it is hard to see what has been gained. No senior al-Qaeda member has been caught or killed. The foreign militants are mostly Central Asian foot-soldiers who are no threat to America. Intelligent guesses suggest there may also be a couple of hundred al-Qaeda Arabs hiding along the border, but in difficult mountainous terrain the soldiers seem unable to find them. Even America, with many more helicopters at its disposal, has had little success hunting militants on the other side of the border.

General Musharraf is under increasing domestic pressure to withdraw the troops. His army is unhappy to be losing men in a war that, many officers feel, is not of Pakistan's choosing. It has destabilised the agencies and threatens to spread Talibanism into North-West Frontier Province. Sensibly, the president has established three commissions to consult the tribes on how they should be governed. If only he had done so before launching his war.

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Kashmir dreaming

Jul 6th 2006
From The Economist print edition

Peace has become a little less unthinkable

THE Punjabi glitterati, from both sides of the border, were richly displayed at a recent cricket match between Pakistan and India in Lahore. Sequined women gossiped, shielding delicate complexions from the burning sun. Their husbands discussed business and glanced at the play, or at the B-list Bollywood starlets among the crowd. Pakistanis and Indians were almost indistinguishable until General Musharraf, in uniform, appeared on a balcony and saluted them. Then the Indians applauded (they love a celebrity) whereas many Pakistanis sat in silent embarrassment.

Eyevine

The height of futility

Enmity with India, including three full-blown wars between the two countries and an almost constant war-footing, is the standard justification for Pakistan's recurrent army rule. Peace between the two would be a priceless gift. It would allow them to stop terrifying the world with the threat of a nuclear war. Both countries could slash their defence spending, which in Pakistan amounts to a quarter of the total budget. They could open their borders, giving Pakistan cheaper access to raw materials. And the militants could retire to their mosques, or perhaps find another cause. General Musharraf understands the need for this. Remarkably, given a career spent fighting India, he has done more to make peace than any predecessor.

The latest peace talks—or “composite dialogue”—began in early 2004, when Atal Behari Vajpayee, then India's prime minister, and General Musharraf vowed to settle their differences, including, most bitter of all, the status of divided Kashmir. For India, which controls the richest part of Kashmir and, in theory at least, claims all of it, even to admit that there was a dispute amounted to a compromise. In practice, India has let it be known that it would settle for the status quo, so that the “line of control” dividing Kashmir in the absence of an agreed international border would become permanent. India rules out any territorial redistribution. Pakistan, with its poorer part, says Kashmiris must decide their own future—to stay with India, or with Pakistan, or to forge an independent state. As a precursor to talks, Pakistan had repeatedly promised not to let terrorists operate on its soil—a tacit admission of its habit of launching Islamist militants into Indian-controlled Kashmir.

To build trust, the rivals started co-operating on smaller issues such as cricket matches and transport links. There are currently about a dozen flights a week between them, and almost daily train services by two routes. Momentously, last year they launched an occasional bus service across the line of control. Another war began to look increasingly unlikely. And that was as much as most Pakistanis and Indians expected of the process.

But General Musharraf has shown more ambition than that. In a series of startling proposals, typically aired in interviews with journalists, he has gone a long way towards meeting India's terms. He no longer

insists that the line of control be scrapped, but rather that it be made a soft border. Kashmiris might then, for example, have rights to free passage and free trade across it. Further, the president says Kashmir should be demilitarised, and Kashmiris given generous autonomy, or “self-governance”. Other issues could be managed jointly by Pakistan, India and Kashmir itself.

Alas, cricket aside, India has shown little inclination to play ball. Its leaders quietly acknowledge that Pakistan has tried, with some success, to rein in the militants. This tempered their outrage in early May when 35 Hindus were massacred in Indian-held Kashmir. But they are suspicious of General Musharraf and his proposals, on several counts. He has not dismantled the Pakistan-based militant groups. And even if he were as good as his word, there is a fair chance he will be assassinated and replaced by a less obliging leader.

Instinctively, moreover, India is loth to make the most meagre concession on Kashmir, least of all one that would involve it withdrawing its army. Manmohan Singh, India's courteous and scholarly prime minister, seems to get on with General Musharraf, and to be sincerely committed to their joint search for constructive solutions. Lasting peace would make a wonderful legacy for him too. But he may find it hard to change the attitudes of India's army, which considers Pakistan too weak, and too wrong, to have anything to offer. India's intransigence is hurting General Musharraf back home. Most Pakistanis would applaud his concessions if they delivered peace, but to make concessions and not have peace is humiliating.

One big test of good intentions for both sides is Siachen glacier in Kashmir, the world's highest battlefield, from which they have been talking of withdrawing troops. Over 20,000 feet (6,000 metres) at its heights, which India controls, Siachen marks the point where the line of control disappears northwards into the Himalayas. It is strategically valueless, and expensive in blood and treasure for both parties. Over the past decade, some 2,000 soldiers have perished there, of altitude sickness, frostbite or in avalanches. Yet India is afraid that Pakistan might steal its high ground, and insists that the current troop positions be officially recognised. Pakistan opposes this, fearing it could legitimise the line of control. A solution might involve appending a record of the current positions, in an unsigned document, to a signed agreement on the withdrawal. Such details may seem absurd, but they are critical. If the two sides can reach agreement on Siachen, they could probably settle a couple of smaller border disputes as well.

It would help if India could make up its mind about General Musharraf. Many in New Delhi, and especially the army top brass, think of him as the same reckless army chief who ordered an attack across the line of control in 1999, near the town of Kargil. That was an outrageous provocation that ended peace talks, caused the deaths of hundreds, perhaps thousands, of Pakistani troops, and made India that much keener to set its troops on Pakistan during a tense stand-off in 2002.

A change of mind

Yet the president does seem to have changed his thinking. The Kargil operation was part of Pakistan's policy, pursued for two decades, of weakening India through insurgency and small assaults but avoiding an all-out confrontation that Pakistan would lose. But at Kargil, India lost patience. It threatened all-out war unless Pakistan's soldiers withdrew, then slaughtered them as they did so. The near-war in 2002 showed a similar Indian belligerence. Until America persuaded it to back down, India had seemed ready to invade its neighbour.

India's growing closeness with America is another spur to General Musharraf's peacemaking. He is not, as his domestic opponents enjoy suggesting, an American pawn. He has defied America, notably by refusing it access to Abdul Qadeer Khan, the father of Pakistan's nuclear bomb and perhaps also of North Korea's and Iran's. But Pakistan needs a powerful ally, and neither China nor Russia quite fits the bill. Better to share America's affections, even with India, than lose them.

Pakistanis love to talk up their country's strategic importance. They want to be seen as a bridgehead between Central Asia and the warm waters of the Arabian Sea; as a pro-Western access-point to the Muslim world; and as a passage between energy-rich Iran and energy-parched India. Their neighbours see either an overbearing bully or an unstable upstart, and an exporter of terrorism. Relations between Sunni-dominated Pakistan and Shia-led Iran have traditionally been dire, but have improved somewhat. The two countries recently signed a pre-agreement to build a gas pipeline from Iran to Pakistan and, theoretically at least, on to India. But this is unlikely to happen soon.

Afghanistan is an ally no more. Pakistan's army long considered it as a legitimate area of influence, a

place to retreat to and launch a rearguard action from should Pakistan ever be occupied by India. But relations between the two countries have deteriorated since Pakistan's proxy, the Taliban government, was removed. Pakistani businessmen are now afraid to go to Afghanistan in case they get lynched there, so bitterly is their country resented. The hostility starts at the top. Hamid Karzai, Afghanistan's president, has accused Pakistan of using Taliban insurgents to fight his regime. Pakistan accuses Mr Karzai of plotting with India against it, and Pakistani army officers trade stories of India's meddling in Afghanistan. General Musharraf has accused India of supplying arms to nationalists in Baluchistan.

None of this is good for building trust, which is utterly lacking between Pakistan and India. But the general's overtures to India have made peace on the subcontinent just about possible. The two countries are now issuing visas to each other's nationals in record numbers. As contacts between ordinary Indians and Pakistanis increase, the possibility might become more real. The most remarkable thing about that match in Lahore was not the cricket (which India won) but the number of Pakistani boys wearing the Indian team shirt.

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No quick fix

Jul 6th 2006
From The Economist print edition

To resolve its dreadful problems, Pakistan needs judicious support

IN HIS pamphlet, “Realism and Practicalism: Philosophy of Altaf Hussain”, the leader of Pakistan's third-biggest political party writes: “Fish, eggs, etc. are also a reality but some people are severely allergic to them, therefore, those who are allergic to them must avoid having it or eating it.” Mr Hussain is an unusual politician. His party, the Muttahida Quami Movement, runs Karachi like a racket, but he lives in exile in Britain, charged with multiple murders back home. Sitting in his office in a London suburb, he explains: “We are against army intervention in politics, but we are with Pervez Musharraf.” This might sound contradictory, even for a philosopher. But it is a view Mr Hussain shares with America and most other foreign powers. They have little alternative.

Alamy

Everything in the garden isn't lovely

Mr Musharraf's takeover of Pakistan re-established its default form of government: a powerful army chief, supported by mostly unscrupulous civilians. This system has produced increasingly arrogant soldiers, abject politicians and rotten institutions. General Musharraf has reinforced it by giving himself vast powers, hastening the rot of Pakistan's institutions, scattering the mainstream political parties and making an even bigger travesty of the democratic process than did the civilian leaders he succeeded. If he were to die suddenly, swift elections would supposedly follow, but it is a fair bet that a new army chief would soon take over. Failing such an upset, the current parliament will be the first in Pakistan to complete its term. That is largely a measure of its irrelevance.

There is little any outsider can do to prevent this slow decay of the Pakistani state. General Musharraf accepts criticism from no one, and seems to believe that his is the only way to rule. On his watch, over 600 serving or retired army officers have been given top government jobs. Even if he sheds his uniform

after next year's election, as promised, the army will remain the font of his power.

The civilian elite, including a select group of English-speaking landowners and industrialists, whinge about this, but few seriously object. Living enchanted tax-free lives, under tight security, the rich have been courted by successive military and civilian rulers; landowners are especially prized for their ability to deliver the rural vote. Some 7% of the landowners hold over 40% of Sindh's land. Most invest little and squeeze their peasant share-croppers cruelly. A landowner in Sindh's interior told your correspondent that he would not provide his villagers with gas for cooking—though it could be had free from a local pumping-station—because he enjoyed a char-grillled meal on occasional visits to his lands.

If the military elite will not reform Pakistan's government, other things might. Welcome change may flow from General Musharraf's biggest achievements, economic growth and an improved chance of peace with India. Sustained growth would swell Pakistan's small middle class, making it more likely to hold its leaders to account. Increased education spending and media freedom—two more positives for the general—would accelerate this process. Thus challenged, the army might even cede power gracefully. Senior officers support the army chief, but not the principle of military rule. Peace with India would be another great boost, raising a heady vision of economic co-operation between the close cousins.

But what if neither happens? Another cycle of chaotic civilian rule and military takeover would send capital fleeing and the economy plunging. A big collapse in land and stock prices, or a big cut in foreign aid, could have the same effect. Pakistan has endured such things before, often, but it emerges weaker each time. Economic hardship, meagre development, inadequate institutions and unrepresentative government will continue to boost provincial separatists and, especially, the country's Islamist fringe. So might regional instability, including more war with India, or an American attack on Iran.

We can't go on like this

It is impossible to predict at what point such things might translate into serious civil conflict, or mass support for the extremists. It will not be soon. Indeed, Pakistan has already muddled along for much longer than many thought possible. But the threat to its region and to the world is serious—far more so than that from the remnants of al-Qaeda in the tribal areas.

Only Pakistanis can avert these dangers. But they will need judicious help. Outsiders should encourage General Musharraf's flagging reforms with aid money and praise, and squarely condemn his anti-democratic ways. Pakistan's bulging, illiterate population needs sustainable government to arrest the country's slide into lawlessness and extremism. If the slide is not arrested, it will accelerate.

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Sources and acknowledgements

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Renault, Nissan and General Motors

Sayonara, General Moteurs

Jul 6th 2006 | DETROIT AND PARIS
From The Economist print edition

General Motors' biggest shareholder tries to arrange a marriage

THE timing could not have been more pointed. As Americans prepared to celebrate Independence Day, Kirk Kerkorian, a billionaire investor who owns nearly 10% of the world's largest carmaker, suggested that the best hope for General Motors was to join Renault and Nissan. A symbol of American commercial might needed rescuing by France and Japan.

The reclusive Mr Kerkorian is GM's largest shareholder—and a restive one, too. For over a year, he has been pressing GM's chairman, Rick Wagoner, to turn the firm around. In particular, Mr Kerkorian and his sidekick Jerry York—veteran of turnarounds at Chrysler and IBM—wanted Mr Wagoner to endorse targets and a timetable for reversing GM's decline. At the Detroit Auto Show in January, Mr York damned Mr Wagoner with faint praise and eulogised Carlos Ghosn, chief executive of Renault and Nissan, for saving Nissan with ambitious targets that he hit early.

Mr Ghosn's secret is to form cross-functional teams, have them draw up detailed plans and then enforce them. He made it work at Michelin in Brazil and America, at Renault in France (where he was called “le cost killer”), and most famously at Nissan in Japan, where he was parachuted in after Renault took a stake in the ailing company in 1999. At the time, Bob Lutz, now GM's vice-chairman, likened the investment in Nissan to filling a container with $6 billion in gold bullion and sinking it in the Pacific. GM's losses have since far exceeded that sum, whereas Nissan has notched up the best profit margins in the industry.

With GM's sales and domestic market share sliding, Mr Kerkorian decided to act. His filing with America's Securities and Exchange Commission outlined a plan that would make GM the third leg in the alliance between Renault and Nissan. The stockmarket value of Renault alone is nearly double GM's, so the duo could easily afford a joint 20% stake. “Such a global alliance,” the filing declared, “has the potential to materially strengthen the competitive positions of all three companies.”

Mr Kerkorian's declaration underscored the enmity between the investor and his chief executive. At first, it seemed as if Mr Wagoner and his lieutenants had been unaware of the proposal. In fact, he had been prodded into setting up a meeting with Mr Ghosn for July 14th—aptly, the closest France has to Independence Day. Mr Kerkorian's filing made the plan public, obliging GM to take it seriously or risk a

lawsuit from its shareholders.

Mr Ghosn has not hidden his interest in adding an American leg to the Euro-Asian alliance. He said as much last month, at a ceremony to mark the construction of Nissan's new American headquarters outside Nashville, Tennessee. He later dined with Mr Kerkorian in Nashville to discuss the plan, having met Mr York in London. This week the boards of Nissan and Renault said they would talk. GM's other investors also liked the idea: its share price rose nearly 10% on news of the scheme. Some industry analysts like it, too. John Murphy of Merrill Lynch said the plan was “confirmation that there is significant value in GM”. But does the marriage make sense?

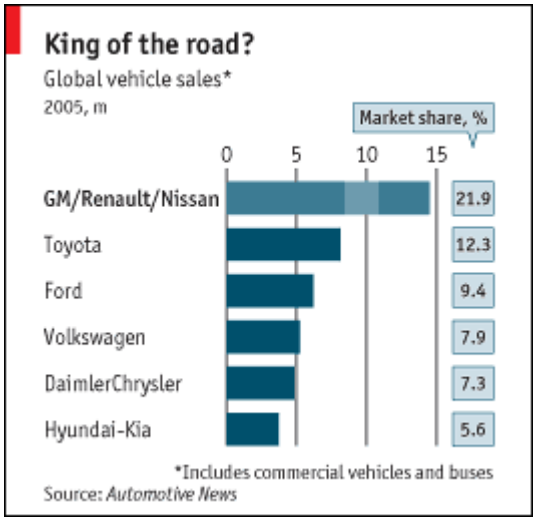
Although the car industry has undergone much consolidation in the past decade, most of it has been disastrous. Two unprofitable smaller firms, Jaguar and Saab, were swallowed by Ford and GM respectively only to cost billions in further losses. After Daimler-Benz snapped up Chrysler in a messy deal, first portrayed as a merger of equals, it took six years to get the combined firm on an even keel. The tie-up between Nissan and Renault does not follow this sorry trend, perhaps because it is a cross-holding alliance, rather than a full merger. “Where there are synergies, we work together,” says a senior alliance executive. “Where there aren't, we work independently.”

GM's experience so far with alliances, however, has been nothing short of awful. Starting in the mid-1990s it took small stakes in Asian and European firms with a view to building a GM federation that would encompass a quarter of the world market. The idea was that GM would gain access to small-car know-how, while sharing in the success of its affiliates in their local markets. But it didn't work. GM has sold its stakes in Suzuki and Fuji Heavy Industries and had to fork out $2 billion to extricate itself from an obligation to buy the 90% of Fiat that it did not own.

Mr Kerkorian and a number of analysts see more opportunities in an alliance with Nissan and Renault. This is partly because of its size. CSM Worldwide, a market-research firm, notes that the three carmakers will collectively sell around 14.3m cars and trucks this year, so that together they would dominate the European, American and Chinese markets.

Nevertheless, CSM questions Mr Kerkorian's estimates of the potential cost-savings. GM's suppliers have already been squeezed hard. Given the company's size today, further economies of scale may be elusive. Product overlaps are another worry: the partners could end up competing with each other as much as with Toyota or Volkswagen.

Moreover, GM has world-beating troubles to match its world-beating size. Though it reported a modest first-quarter profit, last year's $10.6 billion loss still looms large. GM recently announced that more than 30,000 American workers had accepted a buy-out offer, but it has still not secured a settlement at its former parts unit, Delphi, where a devastating strike remains a possibility. And its sales in America last month plunged by 26% compared with June last year, forcing it to bring back costly sales incentives.



Mr Wagoner has reasons of his own to be wary—not least because any deal would involve Mr Ghosn taking control. Although Nissan has staged a miraculous turnaround over the past eight years, it has lost some momentum in recent months and sales, particularly in America, are slipping. Renault has problems, too. Because nearly all its factories are in western Europe, it is under pressure from the Japanese and new low-cost factories in eastern Europe. Yet Mr Ghosn cannot move production eastwards without incurring the wrath of France's powerful unions.

Then again, perhaps Mr Kerkorian's real goal is to find a way out of GM, an investment that has cost him a lot of money. The 89-year-old billionaire has said he is committed to the carmaker. But he said that about MGM, a film studio, shortly before selling it. Maybe Mr Kerkorian's long-term plan is really designed to be a short-term kick to GM's share price. It is a possibility Mr Wagoner, Mr Ghosn and other investors would be foolish to ignore.

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Aerospace

New pilots for EADS

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Two Frenchmen join the European aerospace group's crowded flight deck

WHEN a flight encounters bad weather and things start flying around the cabin, the sensible thing for the pilot to do is to descend to calmer air before people start to worry about the wings falling off. For an international aerospace company in trouble, however, the remedy is not so straightforward. Before anything can happen, everybody has to agree on who should take over the flight deck. At the European Aeronautic Defence and Space (EADS) company there has been an unseemly scuffle outside the cockpit door.

EADS struggled for 20 days to end a crisis that followed the announcement of delays to the A380 passenger jet produced by its Airbus subsidiary. Although Gustav Humbert, boss of Airbus, offered to resign as soon as the delays were made public, Noël Forgeard, the co-chief executive of EADS responsible for Airbus, adamantly refused to go. When he and Mr Humbert were finally pushed out on July 2nd, he insisted in a statement that he had “no responsibility in the A380 delays.”

Reuters

Still under construction

Mr Forgeard tried to cling to his job partly because he is under investigation by French regulators for having exercised his share options in March when he should have had an inkling about Airbus's looming problems. He thought his resignation would be seen as an admission of guilt and, seizing the moment, even tried to exploit the turmoil of recent days to install himself as the company's sole chief executive—his design for the past two years.

But his manoeuvres backfired. The board decided to maintain EADS's odd bicephalic structure and to keep Thomas Enders as its German co-chief executive. His new co-pilot is Louis Gallois, who was boss of SNCF, the French state-owned railway firm, for the past ten years. Before that, Mr Gallois ran an aerospace firm that was merged into EADS in 1999. Mr Humbert was replaced by Christian Streiff, a former number two at Saint Gobain, a French glassmaker. Though both men are competent managers, they were also chosen because of their passports: top jobs at EADS and Airbus are split between a German and a Frenchman to reflect the balance of power between the main shareholders.

Analysts and investors doubt that the appointment of two new bosses will help solve the group's industrial troubles or ease the tension inherent in its dual management structure, however. The production problems remain a worry, too. On July 2nd Rothschild, an investment bank, valued the price at which BAE Systems, a British defence contractor, could sell its 20% stake in Airbus at €2.75 billion ($3.5 billion), much lower than EADS or BAE had expected. BAE now plans to conduct a full audit of Airbus. It is anxious to get rid of its Airbus stake to boost its American business, possibly even by merging with Boeing, which would love the increased exposure to the international defence market that BAE would provide.

On Mr Gallois's first day in his new job, he and Mr Enders went to the Airbus factory in Toulouse to get a clearer idea of the problems with electrical wiring and customisation that have caused the delays to the A380's delivery schedule. Sorting out the troubles of the 555-seat passenger jet is their priority. Airbus accounts for 70% of sales and four-fifths of profits at EADS, which also makes missiles and helicopters. Almost as urgent is the redesign of the A350, a medium-sized jet. The first proposed design for the A350 was roundly rejected by airlines, which preferred the 787 Dreamliner made by Airbus's American rival.

The company is likely to say more about the A350 at the industry's trade show in Farnborough this month.

Mr Forgeard and Mr Enders were hardly on speaking terms, but Mr Gallois and Mr Enders get along just fine. They have had plenty of chance to meet, since Mr Gallois was previously a non-executive member of the EADS board. But although having the new duo in charge is a step in the right direction, EADS needs to do more to prevent politics from getting in the way of doing business. That may become easier as its ownership shifts. Lagardère, a French media group, intends to sell all of its 7.5% holding in EADS and DaimlerChrysler is planning to reduce its stake from 22.5% to 15%. But SEPI, the Spanish government's holding company, is thinking of doubling its 5.5% stake, which would give another interventionist government more influence at EADS.

At a meeting of French shareholders this week Hans Peter Ring, the group's chief financial officer, said that one day EADS would have a single boss. That day cannot come soon enough.

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America's tea boom

Steaming ahead

Jul 6th 2006 | CHARLESTON
From The Economist print edition

America's baby-boomers are embracing tea for its health benefits

The Spokesman

“PROFIT is not our basic motive,” says David Bigelow. He is referring to his tea plantation outside Charleston, South Carolina, which his family company bought in 2003. Its American Classic brand is sold only locally, though Mr Bigelow hopes to extend distribution throughout the South. His 127-acre farm, where bendy old oaks give way to neat rows of waist-high tea bushes, is the only place in America that produces tea commercially. Even though the climate is suitable, tea-growing is simply too costly, since the process is labour-intensive and resists automation. Mr Bigelow hopes to break even eventually through tourism: public tours kicked off earlier this year.

But although tea production in America is minuscule, consumption is booming. Sales have more than tripled in the past 15 years, exceeding $6 billion last year. Some 85% of the tea drunk in America is served iced—for easy sipping on sleepy summer days. Lately, sales of “ready to drink” bottled teas have been growing particularly fast. Mike Harney of Harney & Sons, a tea firm based in New York, calls the United States “the most dynamic tea market in the world”.

Americans' growing enthusiasm for tea can be explained in large part by its health benefits. Tea contains less caffeine than coffee, and the industry touts studies that suggest it can help with heart problems, blood pressure and even cancer. This explains tea's particular appeal to the ageing baby-boom generation, suggests Brian Keating of Sage Group, a market-research firm, in a recent report on the industry. Green tea is perceived to be especially healthy, though white teas, which have undergone minimal processing, are also popular, says Karen Dunlap, a “tea sommelier” based in New York. Tea-based soft drinks are doing well, too.

Tea still trails far behind coffee, of course. The Sage Group estimates that tea sales in America will reach at most one-third the level of coffee sales by 2010. Yet the relationship between the two drinks is oddly collaborative. Starbucks, the dominant coffee chain, bought Tazo, a fast-growing brand of speciality tea, in 1999. Just last week the chain rolled out tangerine and pomegranate frappuccino juice blends, which mix Tazo tea with other fruity flavours. Also on sale, since the spring, has been Starbucks's blackberry green-tea frappuccino. Other chains have also turned to tea-based drinks. Jamba Juice, known for its smoothies, offers a “Matcha Green Tea Blast”, with green-tea powder, soya milk, sorbet and frozen yogurt.

That may not be how they drink tea in traditional China or staid English drawing-rooms. But in the land of the Boston Tea Party, the drink has a certain unconventional history to live up to.

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Telecoms

Interference on the line

Jul 6th 2006 | HONG KONG
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A political tussle breaks out over Hong Kong's telecoms operator

HONG KONG'S politicians are accustomed to mainland China trampling over their wishes. Now the territory's business leaders may have to get used to that reaction too, judging by the row that has broken out over the proposed sale of PCCW, the local telecoms firm (once known as Pacific Century CyberWorks). In mid-June Richard Li, its chairman and largest shareholder with a 23% stake, announced plans to sell the company—or, to be precise, its main telecoms and media assets. As the second son of Li Ka-shing, Hong Kong's richest and most powerful tycoon, and a precocious if somewhat derided entrepreneur in his own right, the younger Mr Li, now 39, is used to getting his way. Given the global bidding frenzy for infrastructure from ports to toll roads, he saw an opportunity and soon attracted two private-equity bidders.

Both Australia's Macquarie Bank and TPG-Newbridge, the Asian affiliate of America's Texas Pacific Group, seem prepared to pay more than $7 billion for the PCCW assets, including debt. The attraction for private-equity groups, say analysts, is stable cashflow from the core fixed-line telephone business, particularly now that PCCW has arrested its decline by launching a pioneering television service, Now TV, which delivers signals over broadband telephone lines. Also circling is News Corporation; its chairman, Rupert Murdoch, has expressed interest in Now TV. Even though PCCW's share price jumped by more than 8% after news of the bids broke on June 19th, analysts think the group could fetch more than today's share price of HK$5.60 (72 cents).

The optimistic salesman

There are no legal barriers to stop Mr Li from selling the assets. Hong Kong has no restrictions on foreign ownership of telecoms firms and the local regulator would block a sale only if it reduced the number of operators and dampened competition. Yet China is unhappy. China Netcom, one of the mainland's four big telecoms operators and a company controlled directly by the central government, has stated that it does not want the PCCW assets in foreign hands. “We don't want to see any changes in PCCW, which is owned and run by Hong Kong people, nor any changes in its key assets. Nor do we intend to raise or lower our own stake,” said Netcom's spokesman, Li Tao.

This interference by China in Hong Kong business is not quite as unwarranted as it appears. Netcom owns 20% of PCCW, which it bought in January 2005 for a generous HK$5.90 a share. A pact signed at the time gave it, in effect, a veto over any large sale of shares in the company. Mr Li's ploy is to exploit a loophole in that pact by selling the company's assets, but not the company itself. Although this is legal, it is seen as a betrayal by Beijing. Mr Li's failure to give Netcom advance warning of his plans, and his unseemly haste to sell out so that he can concentrate on PCCW's remaining property investments, have not endeared him to the Chinese authorities either. As a person close to Netcom put it: “If you have a partnership and your partner exploits a loophole against you, it creates a very unpleasant feeling.”

Nevertheless, Netcom's 20% stake does not give it a licence to control a publicly listed Hong Kong company. PCCW's minority shareholders should also have a chance to vote on the proposed bids—particularly since they have endured a huge destruction of value since Mr Li bought the old Hong Kong Telecom assets for $28 billion in 2000. With three board directors, it is hard to believe that Netcom had no inkling of what was being planned. And Mr Li can make a credible case that his ostensible partner never honoured promises to give PCCW access to its mainland customers. Relations between Mr Li and Netcom have deteriorated since Edward Tian, Netcom's chief executive and the architect of the

collaboration, left earlier this year. Netcom's chairman, Zhang Chunjiang, opposed the tie-up with PCCW and is displeased by the decline in the value of its PCCW stake, says a person who knows both companies.

What now? PCCW's board, which met on July 3rd, is unlikely to abandon the sale. A grinning Mr Li emerged from the meeting saying that talks were “harmonious” and that he hopes for a deal later this month. Yet retreat is unlikely among the high-level mainland actors—including Netcom, the Ministry of Information, and SASAC, which controls the biggest state firms and sent an emergency seven-man delegation to Hong Kong last week.

One compromise might be for the bidders to invite local or mainland partners into their consortia. Andrew Low, head of Asian corporate finance for Macquarie, says he is being backed by “Hong Kong money”. And rumours suggest TPG-Newbridge will bring in Larry Yung, China's richest businessman and chairman of Citic Pacific, and Lee Shau-kee, a local tycoon and head of Henderson Land, a property group. There were also intriguing suggestions this week of a Chinese counter-offer: CGI, a start-up investment firm that is based in Beijing and is controlled jointly by the mainland's telecoms industry and Citic Guoan, a media group, was said to be preparing a joint bid with Netcom. At the same time, the two foreign-led private-equity groups are busy sweet-talking Netcom, apparently offering the firm up to 50% of whatever assets they end up with more or less for nothing, thus diluting their own interests to minority status.

Although that might be the price of doing a deal, it is a big concession to mainland bullying. Of course, China would not be alone in seeking to protect strategic assets: America stymied the Chinese takeover of a Californian oil firm last year; Italy has tried to protect its banks; and France has made a fuss over everything from steel to yogurt. But that still does not make China's position right.

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Antitrust

The unusual suspects

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Microsoft is in trouble again—but so, in a lesser way, are some of its rivals

FOR Microsoft, the world's biggest software company, run-ins with antitrust regulators have become *de rigeur*. This week European Union officials concluded that the firm had failed to comply with penalties imposed in 2004 for anticompetitive behaviour; a large fine is looming. On July 4th Microsoft also suffered a legal setback in South Korea, where it is embroiled in another battle with regulators. But Microsoft is not alone. Two of its rivals—Google and Apple, each seen as the anti-Microsoft in their own markets—seem to be running into modest antitrust problems, too.

On June 29th Google introduced an online-payment service called Checkout, which is intended to compete with the PayPal service owned by eBay. It is a “digital wallet” that simplifies how people pay for things over the internet. To entice merchants to adopt the system, Google discounts the fee when they also buy advertisements sold through its hugely successful AdWords system.

That has raised some eyebrows, because this tactic—using a strong position in one market (online ad-placement) to establish a foothold in another (payments)—is exactly what has landed Microsoft in so much hot water over the years. The dominance of Microsoft's Windows operating system helped it win widespread adoption of its web-browser and media-player software.

Google can rightly claim that it is not forcing customers to take the two together, as Microsoft did. Yet it will be concerned at this week's indication by a federal judge in California that he may allow a suit against the company based on an entirely different complaint. Kinderstart.com has accused Google of violating antitrust law by changing its search algorithm so that Kinderstart's website plunged down the search rankings, causing its traffic to decline by 70%. Google denies that it deliberately modifies results to favour particular firms, and also argues that search rankings constitute opinions, and are thus protected as a form of free speech in any case.

Meanwhile, Apple is also feeling the antitrust pitchfork. Last week French legislators passed a law that requires content downloaded from online stores to be playable on all types of portable player, unless copyright holders grant their permission otherwise. Today, music purchased from Apple's iTunes Music Store can be played back only on Apple iPods—and iPods cannot play music bought from rival online stores such as Napster, which uses Microsoft's digital-copyright system, or Sony's Connect. Although customers may find this annoying, it is unclear whether it is an abuse of market power to lock in users (see article). Other countries, including Norway, Sweden and Denmark, are considering similar rules.

None of these examples is in the same league as Microsoft's woes. Neither Apple nor Google has anything like the market dominance that Microsoft has in operating systems. But they are evidence of regulators' and legislators' readiness to mess around with new markets that would be better left alone—and of competitors' tendency to egg them on.

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Economist.com BUSINESS
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Business in Italy

Market-friendly former Marxists?

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Italian companies are not quite sure what to think about their new government

"WE will be more liberal than Berlusconi," promises Pierluigi Bersani, the minister for economic development in Romano Prodi's new centre-left Italian government. He has made a strong start. On June 30th, earlier than expected, he rushed a decree through cabinet, abolishing some of the more abstruse regulations in the services industry that throttle economic activity in Italy. The decree allows supermarkets to stock non-prescription drugs, lets private companies run public transport, stops banks from penalising customers who close their accounts and frees local authorities to issue more taxi licences. It also does away with an outdated law limiting the number of bakeries and the amount of bread that can be baked in any one district.

That might sound modest, but it was enough to set off a storm of protests, including wildcat strikes by taxi drivers, who blockaded airports in Rome and Milan. And this is just the beginning of Mr Bersani's programme to liberalise Italy's sputtering economy. Italy has plenty of monopolies and cartels with powerful lobbies and the government is planning further measures aimed at the country's coddled professions. The next round of reforms will concentrate on banking, insurance, energy and the public sector.

Mr Bersani's onslaught on insider privileges surprised business leaders, who had viewed the new government with a mixture of fear and resignation. Even Domenico Siniscalco, who served briefly as finance minister under Silvio Berlusconi, the former centre-right prime minister, approves. "It is a courageous step, but only the first one," he says. While in office, Mr Siniscalco got into trouble when he tried to interfere with the special privileges granted to notaries.

Business is worried about the new government's tiny majority in the upper house of parliament, its internal divisions and the strong influence of Communists and former Communists. Mr Bersani himself is a former member of the Communist Party, as are many of his cabinet colleagues. By contrast, many entrepreneurs were optimistic when Mr Berlusconi came to power in 2001, because he was one of them, a self-made man who they hoped would help business more than any of his predecessors. As these hopes evaporated, they turned against him.

The damage done to the economy under Mr Berlusconi is striking. Extrapolating his policies to 2050, the IMF estimates that Italy's budget deficit would reach 20% of gross domestic product and public debt would rise to as much as 300% of GDP. Having gone through a recession last year, the Italian economy now seems to be in slightly better shape, with both employment and industrial production rising. Yet this is mainly due to the pick-up of global economic growth, particularly the recovery in Germany, which is helping to lift Italian exports.

The government hopes liberalisation will further boost the economy, and that this will, in turn, help the public finances. The package came at the same time as a mini-budget, a first step towards trimming the deficit by €42 billion ($53.5 billion), or 1.7% of GDP, by 2007. Rising interest rates are increasing the cost of servicing government debt and limiting investment in infrastructure, education and technology.

Mr Bersani is realistic about the difficult road ahead. "We don't have any fairy tales to tell," he says. His government's two-seat majority in the upper house will make it hard to pull off big tax increases or cuts in social spending. Raising money through privatisation is not on the agenda, either: Mr Bersani says he doesn't want to turn public monopolies into private ones.

Italian entrepreneurs moan about high taxes, high social costs, red tape and the government's tendency to meddle in business. Italy's income- and corporate-tax rates are among the highest in the European

Union, although the overall tax take as a proportion of GDP is only middling because evading the taxman is a national pastime. The government says it will reduce the payroll costs that employers must add to wages, the biggest of all business complaints. Though employers object to the conditions attached to the proposal, they admit that a cut of five percentage points in payroll taxes is a positive step.

So could this government turn out to be more business-friendly than Berlusconi's lot? Businessmen are doubtful, though they are impressed by the Prodi team's European credentials, which they take as a sign that the new ministers will try to make Italy more like other big EU countries. Tommaso Padoa-Schioppa, the finance minister, is a former board member of the European Central Bank. Emma Bonino, the Europe minister, is a former European commissioner. Giuliano Amato, the interior minister, was one of the godfathers of the European Union constitution. Two ministers have been members of the European parliament. And Mr Prodi himself was president of the European Commission.

Mr Prodi's last government, in the late 1990s, was one of the best in recent years. He pushed through painful structural reforms and made some progress in modernising the economy. Italians swallowed these measures because they were keen to be founder members of Europe's single currency. This time around Mr Prodi has no such motivational tool, and his government is weaker. But his first couple of months in office have at least surprised the doomsayers.

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Face value

The business of persuasion

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Erel Margalit, an Israeli venture capitalist, dreams of using his dealmaking skills to revitalise Jerusalem

JVP

HE CALLS it his “two Thursdays” story. On a Thursday morning two years ago, visiting the Shanghai office of his venture-capital firm, Jerusalem Venture Partners (JVP), Erel Margalit witnessed an online game that 500,000 Chinese were playing at once—all of them immersed in the same story, like a massive film audience, except that they were taking part in the action. That evening he flew to Los Angeles, crossing the international date line, and landed on the same Thursday morning to find that the big studios were sparing barely a thought about how mass participation might affect their films. “I said to myself, this is where things are going to merge,” he remembers.

Mr Margalit imagined a fusion between games and animated films, where viewers are often “snacking on content, not the entire movie”; and where merchandising means selling not a doll, but a character to download on to a handheld gaming device. Which is why he is opening a digital-animation studio in Jerusalem and has brought in big Hollywood animation names to run it. But it is only part of a much larger vision for the city's future—and his own.

Such visions are part of what has made Mr Margalit one of the stars of Israeli venture capital, though his company is neither the oldest, nor the biggest or the most active in the industry. He attributes his success to the usual factors: an ability to spot trends early, some luck, and a willingness to take a few big risks. Some of JVP's best early gambles were on technologies that made up the infrastructure of the fast-growing internet. It was one of the investors in Chromatis, an optical-networking company sold in 2000 for $4.8 billion in the biggest-ever Israeli high-tech deal—though Chromatis later became one of the most infamous victims of the dotcom crash.

What Mr Margalit fails to mention is his almost supernatural ability to make people believe in things they might normally dismiss as ridiculous. He founded JVP in 1993 at the age of 32, with no money and no technical background. His knowledge of technology came largely from his previous job as head of business development for Jerusalem's mayor, Teddy Kollek—a job he had won through a mixture of personality and connections. In that role, he helped coax some of the world's biggest technology firms into setting up offices in the city.

His vision was spot on. Israel's high-tech boom was taking off, fuelled by grants to scientists, military-research projects, a wave of engineers and scientists immigrating from the collapsed Soviet Union, and the growth of foreign semiconductor factories. High-tech industries now provide around 55% of Israel's exports, and in the past ten years accounted for about 40% of its growth. Israeli technology firms took a tumble after the dotcom bust, as technology firms did elsewhere; but they have suffered less from the Palestinian intifada than many other parts of the economy. Israel now has more companies listed on NASDAQ, America's technology index, than any other foreign country has.

But venture-capital investments in Israeli firms are now levelling off at about $1.4 billion a year, according to Israeli Venture Capital, a research firm. It's a good moment for Mr Margalit to devote more time to something bigger: nothing less than the transformation of Jerusalem. For years, the secular and affluent have been abandoning the city for Tel Aviv and its suburbs. That leaves it increasingly dominated by Palestinians and ultra-orthodox Jews, both groups with big families and high unemployment. The poorer the population, the poorer the municipality, and so the cycle continues—many think irreversibly.

Mr Margalit argues otherwise. The city's reservoir of intellectual and creative life can be tapped, he insists. A few elite institutions—the Hebrew University, the Bezalel art academy, the state-run Israel Broadcasting Authority, the hospitals, even the government—that now function largely in isolation from the city could become “a cluster of creative elements, a cohesive arena.” Projects such as Mr Margalit's animation studio and the Lab, an avant-garde performance space he owns, which is already helping revitalise a post-industrial wasteland in south Jerusalem, could contribute towards a creative critical mass. Last week he was nominated as chairman of the broadcasting authority; if approved, he intends to make it spend more money on creative, original content. The appointment is widely seen as a stepping-stone to his presumed real goal, which is to run for mayor.

A vision of the new Jerusalem

In the white heat of his vision, knotty political questions melt away too. How to rope in the ultra-Orthodox, who enjoy generous government subsidies to study instead of work? Create technology-related jobs that will offer them something better. And the Palestinians, whose districts get less municipal funding and who face discrimination in hiring by Israeli firms? They are potential go-betweens with the Arab world; Jerusalem could become a gateway to Middle-Eastern markets. He insists that “it's not utopia”. Although, he says, Arabs and Jews need to develop a new attitude towards each other, he has been in talks with Arab friends about possible projects, though he won't say what.

Mr Margalit can make it sound plausible. He is certainly an incorrigible optimist: even amid the frightening escalation of the Israeli-Palestinian conflict in the wake of the kidnapping of an Israeli soldier, Mr Margalit still argues that a peaceful settlement is just a few years away. One can imagine that in politics, he would be just as persuasive as he has proven himself to be in business—though how well he would swim in Israel's political sea of sharks is another question. For the moment, though, he will not talk about such ambitions. Doubtless he is wary of the fate of Nir Barkat, an entrepreneur who ran for mayor of Jerusalem but wound up with an opposition seat on the city council. Mr Margalit, one feels, is the kind of person who runs only to win.

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Internet advertising

The ultimate marketing machine

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Thanks to the power of the internet, advertising is becoming less wasteful and its value more measurable

IN TERMS of efficiency, if not size, the advertising industry is only now starting to grow out of its century-long infancy, which might be called “the Wanamaker era”. It was John Wanamaker, a devoutly Christian merchant from Philadelphia, who in the 1870s not only invented department stores and price tags (to eliminate haggling, since everybody should be equal before God and price), but also became the first modern advertiser when he bought space in newspapers to promote his stores. He went about it in a Christian way, neither advertising on Sundays nor fibbing (thus minting the concept of “truth in advertising”). And, with his precise business mind, he expounded a witticism that has ever since seemed like an economic law: “Half the money I spend on advertising is wasted,” he said. “The trouble is, I don't know which half.”

Wanamaker's wasted half is not entirely proverbial. The worldwide advertising industry is likely to be worth $428 billion in revenues this year, according to ZenithOptimedia, a market-research firm. Greg Stuart, the author of a forthcoming book on the industry and the boss of the Interactive Advertising Bureau, a trade association, estimates that advertisers waste—that is, they send messages that reach the wrong audience or none at all—$112 billion a year in America and $220 billion worldwide, or just over half of their total spending. Wanamaker was remarkably accurate.

What Wanamaker could not have foreseen, however, was the internet. A bevy of entrepreneurial firms—from Google, the world's most valuable online advertising agency disguised as a web-search engine, to tiny Silicon Valley upstarts, many of them only months old—are now selling advertisers new tools to reduce waste. These come in many exotic forms, but they have one thing in common: a desire to replace the old approach to advertising, in which advertisers pay for the privilege of “exposing” a theoretical audience to their message, with one in which advertisers pay only for real and measurable actions by consumers, such as clicking on a web link, sharing a video, placing a call, printing a coupon or buying something.

Rishad Tobaccowala, the “chief innovation officer” of Publicis, one of the world's biggest advertising groups, and boss of Denuo, a Chicago-based unit within Publicis with the job of probing the limits of new advertising models, likens traditional Wanamaker-era advertising to “an atom bomb dropped on a big city.” The best example is the 30-second spot on broadcast television. An independent firm (such as

Nielsen, in America) estimates how many television sets are tuned to a given channel at a given time. Advertisers then pay a rate, called CPM (cost per thousand), for the right to expose the implied audience to their spot. If Nielsen estimates that, say, 1m people (“the city”) are watching a show, an advertiser paying a CPM of $20 would fork out $20,000 for his commercial (“the atom bomb”).

Gone for a brew

The problem is obvious. The television room may be empty. Its owners may have gone to the kitchen to make a cup of tea or to the toilet. They may have switched channels during the commercial break, be napping or talking on the telephone. The viewer may be a teenage girl, even though the advertisement promotes Viagra. It might even be a TiVo or other such device that records the show so that the owner can watch it later and skip through the commercials. Parks Associates, a consumer-technology consultancy, estimates that 10m American households already have a digital video recorder.

“Segmentation”, an advertising trend during the past two decades tied to fragmentation in the media, represents only a cosmetic change, thinks Mr Tobaccowala. Advertisers airing a spot on a niche channel on cable television, for example, might be able to make more educated guesses about the audience (in their 30s, gay and affluent, say), but they are still paying a CPM rate in order blindly to cast a message in a general direction. Instead of atom bombs on cities, says Mr Tobaccowala, segmentation is at best “dropping conventional bombs on villages”. The collateral damage is still considerable.

By contrast, the new advertising models based on internet technologies amount to innovation. Instead of bombs, says Mr Tobaccowala, advertisers now “make lots of spearheads and then get people to impale themselves.” The idea is based on consumers themselves taking the initiative by showing up voluntarily and interacting with what they find online.

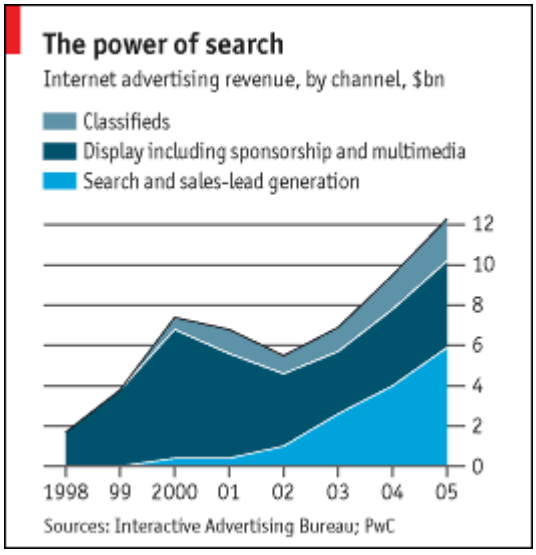
In its simplest form, this involves querying a search engine with keywords (“used cars”, say), then scanning the search results as well as the sponsored links from advertisers, and then clicking on one such link. In effect, the consumer has expressed an intention twice (first with his query, then with his click). The average cost to an advertiser from one such combination is 50 cents, which corresponds to a CPM of $500; by contrast, the average CPM in traditional (“exposure”) media is $20. A consumer's action, in other words, is 25 times as valuable as his exposure.

The person who deserves more credit than anybody else for this insight is Bill Gross, an internet entrepreneur with a kinetic mind and frenetic speech who in 1996 started Idealab, a sort of factory for inventions. One of the companies to come out of his factory was GoTo.com, later renamed Overture, which pioneered the market for “paid search” or “pay-per-click” advertising. In 2001 Mr Gross ran into Sergey Brin and Larry Page, the young co-founders of Google, a search engine that was just then becoming popular, but still had no way of making money. He offered them a partnership or merger, but Messrs Brin and Page were purist at the time about not diluting the integrity of their search results with commercialism and they turned him down.

Within a year, however, Messrs Brin and Page changed their minds and came up with AdWords, a system based on Overture's idea of putting advertising links next to relevant search results and charging only for clicks (but with the added twist that advertisers could bid for keywords in an online auction). Google soon added AdSense, a system that goes beyond search-results pages and places “sponsored” (ie, advertising) links on the web pages of newspapers and other publishers that sign up to be part of Google's network. Like AdWords, these AdSense advertisements are “contextual”—relevant to the web page's content—and the advertiser pays for them only when a web surfer clicks. Together, AdWords and AdSense produced $6.1 billion in revenues for Google last year.

Because this advertising model is so lucrative, all internet portals want to catch up with Google. In 2003 Yahoo!, the largest media property on the web, bought Overture from Mr Gross for $1.6 billion. Yahoo! then dropped the technology it had been licensing from Google. Then Microsoft, which owns MSN, another large internet portal, built adCenter, its version of a “monetisation engine”, which has now replaced Yahoo! as the advertising system for searches on MSN. In addition, eBay, the largest auction site on the web, has a version called AdContext. Pay-per-click advertising is not without its problems—especially “click fraud”, the practice of generating bogus clicks for devious reasons, such as making a rival advertiser pay for nothing. Nonetheless, pay-per-click remains much more efficient than traditional marketing for many advertisers. It is the fastest-growing segment of the online advertising market (see chart).

Some companies are already exploring other methods of charging advertisers for consumers' actions. Mike Hogan, the boss of ZiXXo, a start-up near San Francisco, says that he is "disrupting the existing coupon system", dominated by companies such as Valpak and Valassis in America. Some 335 billion coupons were distributed in America last year—priced, like other traditional media, in CPM—but only 4.5 billion were redeemed, which amounts to a "Wanamaker waste" of almost 99%. ZiXXo, by contrast, lets advertisers issue coupons online and places them on search results, online maps and other such places, but charges advertisers only when a consumer prints one out (50 cents per coupon from next year), thus expressing an intent to redeem it.



As ZiXXo is pioneering "pay-per-print" advertising, Ingenio, another San Francisco firm, is betting on "pay-per-call". Instead of coupons, it places toll-free telephone numbers on local-search pages—its biggest partner is AOL—and charges advertisers only when they receive a live call from a consumer. This is especially popular among accountants, lawyers, plumbers and other service providers who find it easier to close a deal on the telephone. EBay is planning to sell pay-per-call advertising on a larger scale, by placing little buttons from Skype, an internet-telephony firm it bought last year, on its own web pages and perhaps those of others, so that consumers can talk with a seller after just a single click.

Meanwhile, Mr Gross, almost famous from his first innovation (and not at all bitter that Google got most of the credit), is once again busy pursuing what he considers the "Holy Grail" of advertising—the complete elimination of Wanamaker waste. He calls this cost-per-action, or CPA, although he means cost-per-sale, and says that it "just makes too much sense" not to catch on. His start-up this time is called Snap.com, a small search engine. An airline, say, that advertises on Snap's search results would pay not when a consumer clicks on its link but only when he buys a ticket. Google, which is researching almost all conceivable advertising methods, also has plans for CPA. Its new Google Checkout, an online payments system set up to rival eBay's PayPal, will allow Google to know more about how many users who click on one of its advertisements subsequently go on to complete a purchase.

Branded

If the internet enables such snazzy performance-based advertising methods, it is also sparking a renaissance in branded advertising. Some products—such as mortgages—might conceivably be sold entirely through performance-based marketing one day, says Mr Stuart at the Interactive Advertising Bureau, but many other products—such as cars, cosmetics and alcohol—will probably always require branding as well. Even when consumers start their shopping research on a search engine, they still see several competing sponsored links, and may be swayed by their previous brand exposure in deciding which one of these links to click on. And in the "offline" world, brands are still "the ultimate navigation device," says Mr Tobaccowala at Denuo, and often determine which door a tired traveller far away from home walks through.

Brand advertising is inherently about leaving an impression on a consumer, and thus about some sort of exposure. On the internet, however, an exposure can also be tied to an action by a consumer, and these actions can be counted, tracked and analysed in ways that exposure in the established mass media cannot. Consumers also tend to be more alert on the internet. Whereas people might watch a television show in a semi-comatose state of mind and at obtuse angles on their couches, consumers typically surf the web leaning forward while "paying attention to the screen," says Mr Stuart.

A good example is video games, which increasingly take place online and involve thousands or millions of other players. Companies such as Massive and Double Fusion are already placing two-dimensional brand advertisements into games. A player moving through the streets of New York to kill something or other might see a DHL truck or a billboard. "But the future is intelligent three-dimensional ads" and "ads with behaviour," says Jonathan Epstein, Double Fusion's boss. For instance, his technology will soon allow Coca-Cola to place a Coke can into a game, where it fizzes when a player walks by and might give him certain powers if he picks it up. If a character uses a mobile phone inside a game, the technology can swap the brand and model of the phone depending on which country the player is in. But the most important aspect of the technology, says Mr Epstein, is that it will track exactly how long the player uses

the phone, thus leaving no doubt about whether an “impression” had indeed been made.

Propagating the message

That same transparency is now coming to “viral” marketing. Kontraband, a firm in London, takes funny, bizarre, conspiratorial or otherwise interesting video clips from its clients and places them on its own site and on popular video-sharing sites such as YouTube.com or Google Video. The hope in viral marketing is to create something that is so much fun that it will propagate by itself, as people e-mail it to each other or put the web link on their blogs. This means that a pure “cost-per-feed” system is out of the question, says Richard Spalding, Kontraband's co-founder, since a successful viral campaign “that gets out of hand and is watched by millions would run the client out of business.” So Kontraband charges a flat fee based on a hoped-for audience, leaving the client with the economic upside if the real audience turns out to be larger. The important point, says Mr Spalding, is once again that the “sprites” (ie, bits of software) inside the video let Kontraband track exactly how many times a video is viewed and where, so that clients can see neat pie charts that summarise their success.

Understandably, this strange and thrilling online world can be unsettling to the old hands of the advertising industry, whether they are marketing bosses for advertisers or intermediaries at the agencies. “All of us have been classically trained, and now we're in a jazz age,” says Mr Tobaccowala. Advertisers and their agents, he recalls, have already changed their minds about the internet twice. During the technology boom of the late 1990s, he says, the general outcry was, “Oh my god, I need a dotcom unit.” When the boom turned to bust at the beginning of this decade, he says, there was a sigh of relief (“See, the internet is not for real.”), and it suddenly seemed as though only those who did not “get it” still had jobs.

This was a mistake, says Mr Tobaccowala, since the sceptics confused the performance of the NASDAQ and the fate of individual dotcoms with genuine changes in consumer behaviour. In the consumer-driven market for classified advertising, for instance, ordinary people instinctively grasped the efficiencies of online sites such as Craigslist, thus causing a drop in classified revenues at newspapers. The large advertisers stayed more conservative, however, which may explain why the internet-advertising market is still disproportionately small. The Online Publishers Association, a trade group, estimates that all web advertising in America came to about 6% of total advertising expenditures last year, even though consumers spent 23% of their media time online.

Now, however, chief executives are taking trips to Silicon Valley, often without their “chief marketing officers”, to educate themselves. And what they hear impresses them. Tim Armstrong, Google's advertising boss in North America, preaches to his clients a “notion of asset management” for their products that “shocks” them. Traditionally, he says, most firms would advertise only 5% to 10% of their wares—the blockbusters—in the mass media to publicise their brand, hoping that it shines a halo on the remainder of their products. Now, however, “companies market each individual product in that big digital stream,” says Mr Armstrong, from the best seller to the tiniest toothbrush. This is called exploiting the economics of the “long tail”.

They do this, first, because the internet, in effect, eliminates scarcity in the medium. There are as many web pages for advertisers as there are keywords that can be typed into a search engine, situations that game players might find themselves in, and so forth. Each one comes with its own context, and almost every context suits some product. The second reason is that if you can track the success of advertising, especially if you can follow sales leads, then marketing ceases to be just a cost-centre, with an arbitrary budget allocated to it. Instead, advertising becomes a variable cost of production that measurably results in making more profit.

This often leads to more subtle changes in the way that advertisers think about their craft, says Mr Armstrong. In the traditional media, he says, advertisers are always “trying to block the stream of information to the user” in order to “blast their message” to him. That quickly gets annoying and turns consumers off. In American prime-time television, advertising interruptions added up to 18 minutes an hour last year, up from 13 minutes an hour in 1992, according to Parks Associates. On the internet, by contrast, advertisers have no choice but to “go with the user,” says Mr Armstrong, and “the information coming back from the users is more important than the messages going out.”

For consumers this may turn out to be the biggest change. The kids in “Generation Y”, “echo-boomers” and “millennials”—young people who tend to be adept at using media, constantly online and sceptical—are increasingly immune to the clichés of prime-time television and radio and mentally tune out these

nuisances. Online, however, they may accept advertising, if it is unobtrusive, relevant and fun. Insofar as they took some action to invite the advertisement, they may even find it useful. And this, aptly enough, is a consumer reaction that John Wanamaker would have expected all along.

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About sponsorship

World trade

Under attack

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America is being blamed for the impasse in global trade talks

IN NOVEMBER 2001 the United States was the midwife to the birth of the Doha round of global trade talks. Bob Zoellick, then America's top trade negotiator, grasped better than most the importance of starting a new round in the aftermath of September's terrorist attacks on New York and Washington, DC. In the years since, America has often kept the stumbling negotiations going, dragging the members of the World Trade Organisation (WTO) back together after poor countries scuttled a ministerial conference in Cancún in 2003 and last year offering the first thorough plan for freeing farm trade.

How ungrateful then that, as the talks limp towards collapse, accusing fingers are being pointed at America. The United States, other countries claim, is preventing a Doha deal, by demanding too much liberalisation from others while offering too little itself.

Such complaints have become louder since a desultory gathering of trade ministers in Geneva broke up on July 1st, earlier than planned and with virtually no progress to report. The negotiators were trying yet again to hash out a framework for freeing trade in farm and industrial goods, a task that has been beyond them for almost five years. Everyone knows that such a deal requires deeper reductions in farm subsidies than America has so far offered, as well as bigger tariff cuts from the European Union and emerging economies.

However, Susan Schwab, America's new trade representative, made clear at Geneva's meeting that she would offer no further cuts in subsidies. Instead, she dwelt on the inadequacy of others' proposals, particularly a “black box” of loopholes through which the EU and emerging markets could minimise the effect of reductions in tariffs.

Ms Schwab has a point. The Europeans and the emerging economies are far less ambitious tariff-cutters than America has been. In farm trade, for instance, America wants rich countries to slash barriers by an average of 66%. The EU's last official offer was 39%; the G20 (a group of big emerging economies including Brazil, China and India) wants a 54% cut from rich countries; it is assumed that poorer

countries would cut by two-thirds as much. These proposals are weakened by a lot of exceptions. Both rich and poor can declare some goods “sensitive”. Developing countries have an extra loophole for “special” products, for example to protect the livelihoods of subsistence farmers.

Some countries want enough exceptions to eviscerate the proposals almost completely. For instance, a group of emerging economies that includes China, India and Indonesia wants the right to define 20% of farm goods as “special” and demands that tariffs on these products need not be cut at all. By one estimate, that would exempt over 90% of imported farm goods from any reductions in tariffs.

At the same time, America's critics are right to say that its offers on farm subsidies are less attractive than they sound. America has promised to lower its limit on trade-distorting subsidies by around half, which sounds impressive. The new ceiling, at just under $23 billion, is far less than the Europeans' equivalent figure. However, it is more than America actually spends (last year's total was $19.7 billion)—which has infuriated its negotiating partners.

A question of tactics

Optimists (of whom there are ever fewer) argue that this impasse is essentially tactical. Because the Geneva meeting was Ms Schwab's first appearance as America's trade representative, she needed to sound tough in order to establish her political credentials back home. Armed with a reputation as a stout defender of American interests, she will have Congress's confidence and will therefore be able to strike a deal.

What is more, according to this reading, the ingredients of compromise are obvious. Pascal Lamy, the WTO's director-general, talks about a “20/20/20” deal: America cuts its subsidy ceiling to below $20 billion; the EU agrees to the G20's proposal for farm tariffs; and emerging economies agree to cap their industrial tariffs at 20%. Such a compromise would lower barriers by less than America proposes (and by less than they ought to be lowered). But it would stop subsidies rising and bring about some liberalisation of both agricultural and industrial trade.

A more pessimistic view is that today's impasse is not tactical, but the consequence of a widening gap between America and others over what the Doha round should achieve. Many important parties, notably the EU and Brazil, appear to be inching towards Mr Lamy's compromise. India, though, is not. If anything it is becoming less flexible, determined that the round's professed aim of helping the poor means that poor countries should do nothing at all. America is at the other extreme. It clings to an admirable determination that the round must yield deep reductions in tariff barriers all round—so much so, it seems, that it may reject the compromises others require even if that threatens the round as a whole.

Indeed, many congressmen argue that no deal is better than a bad deal. Lawmakers appear keener on bilateral trade agreements, in which America can dictate terms more easily, than on multilateral compromises. There is little overt pressure from business to complete the Doha round. Whether in services or industrial goods, American companies seem to have accepted that the talks will not yield much. Even some trade wonks are sceptical about Mr Lamy's compromise. Jeffrey Schott, of the Institute for International Economics, a Washington think-tank, suggests it would do little to advance global trade and could even harm the multilateral system. Who would bother with such cumbersome talks in future if they yielded so little this time around, he asks? Rather than settle for Mr Lamy's formula, he says, America should keep pushing for a bolder deal even if it takes longer.

The trouble is that the clock is ticking, not least because George Bush's trade-promotion authority expires next June. Ms Schwab and her team may still be able to prod recalcitrant countries into offering more, but any plausible agreement is sure to be less ambitious than America would like. Over the next few weeks the Bush administration must decide which hurts more: criticism at home for an imperfect deal, or criticism abroad for allowing the Doha round to fail.

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Russia and the WTO

The joining type, after all

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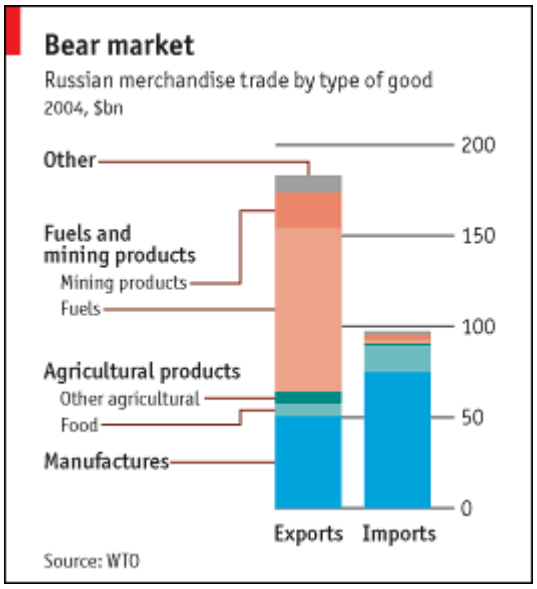
Vladimir Putin hopes for a present when George Bush comes to visit



THAT DVD, explains an unabashed salesman at a Moscow flea market, was copied from a Baltic release; that version of "Brokeback Mountain" is descended from an Oscar viewing tape. This insouciant piracy is one of the remaining obstacles in Russia's bid to join the World Trade Organisation (WTO)—a bid that may nevertheless be on the verge of success.

It has been a long campaign. The largest economy outside the WTO, Russia first asked to join what was then GATT in 1993. With his lust for membership of important global clubs, Vladimir Putin, Russia's president since 2000, invigorated the effort. The last big hurdle is the striking of a bilateral agreement with America, as all would-be members must do with all existing ones (though the multilateral formalities that follow can drag on, as China discovered). Besides the enforcement of intellectual property rights, America's outstanding gripes include rules for foreign banks that want to operate in Russia and the capricious use of sanitary measures to keep out agricultural goods, as happened recently with Georgian wine and water.

Pure politics, allege some impatient Russian officials—including Mr Putin, who this week threatened to withdraw trade promises Russia had made in anticipation of joining the club. Mr Putin argues that Russia's economy is more open than those of many WTO members. His government has just lifted all remaining capital controls, which may have big effects on the bond market and the rouble. Russia is repaying the last of its Paris Club debt. The Kremlin hoped that such fiscal responsibility and liberalisation would be crowned by a WTO deal with America in advance of next week's G8 summit in St Petersburg. But the Americans, say the Russians, keep making new and unfair demands.

They may have a point. Some in Washington lobbied for George Bush to chastise Mr Putin for his anti-democratic bent by snubbing St Petersburg altogether; keeping Russia out of the WTO is an alternative punishment. America's Congress has yet to allow Russia to "graduate" from the Jackson-Vanik amendment, a trade law introduced in 1974 to press the Soviet Union to allow Jews to emigrate. Russia gets an annual waiver; but as things stand, the benefits of WTO accession might be diluted. Some congressmen also worry that China was let into the WTO prematurely and has not kept its promises. A spate of scandals—a batch of imported mobile phones that were impounded for health reasons, but turned up on the Moscow black market; alleged DVD smuggling by Aeroflot flight crews—has not helped.

The Russians are especially peeved by what they see as preferential treatment for Ukraine, which has reached a deal with America and graduated from Jackson-Vanik in March. Pirated DVDs, the Russians complain, are as freely available in Kiev as in Moscow. The fear is that the Ukrainians may join the WTO first, then set about blocking Russia. "We are not competing with our friends," says Maxim Medvedkov, Russia's top WTO negotiator, though he adds that it would be sensible for the two countries to join together. (Ukraine has problems too, in the form of an obstreperous parliament that has blocked WTO-related laws.) For its part, the Kremlin has tried to put pressure on the Americans by linking the WTO talks with the choice of foreign partners for the giant Shtokman gas project in the Barents Sea: two American firms are on the short list.

This friction has emboldened those Russians who would prefer to stay out, either because they dislike the

idea of Russia joining anything, or because they fear for vulnerable sectors, such as agriculture: Russian produce will struggle to compete with subsidised European fare. Yuri Luzhkov, Moscow's powerful, demagogic mayor, recently thanked America for obstructing Russia's accession. Exporters of metals and chemicals should gain immediately, but the longer-term benefits of membership are hard to explain to a population that tends not to look far ahead.

Politics can help as well as hinder—witness that Russia is in the G8 at all, which on economic grounds it should not be—and may yet serve Russia's WTO campaign. Mr Putin's public crossness may turn out to be a last-ditch negotiating tactic. Both the Russians and Americans say they are hopeful that a bilateral deal can be struck when Mr Bush visits Russia next week, at what might otherwise be a frosty meeting.

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Japanese monetary policy

On a roll

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The case for keeping interest rates at zero evaporates

LIKE a tide pushing inland, Japan's recovery is now touching the economy's remotest parts. What began as a pick-up in exports in 2003 was by the end of last year a recovery clearly rooted in domestic demand. Companies have recently been making record profits, and have rejoiced in full order books. As the gap has narrowed between what the economy actually produces and what it is capable of, demand for workers has increased. Last November inflation, measured by core consumer prices (which exclude fresh food, but include energy), rose for the first time in years. It has been in positive territory ever since. This is the end, then, of Japan's long era of deflation.

In late April, the Bank of Japan (BoJ) declared the output gap to be closed. In May, it was recently announced, core consumer-price inflation rose to an annual 0.6%, from 0.5% in April, while unemployment, at 4%, fell to an eight-year low. The employment picture now strongly favours job-seekers: on average, 107 jobs exist for every 100 applicants. Admittedly, wage rises remain slight for now, perhaps because a large number of part-time workers or those not on regular contracts still exert a moderating force on pay. All the same, a tighter labour market looks set to play a part in pushing consumer prices higher.

AP

Out boosting domestic demand

The BoJ's governor, Toshihiko Fukui, and other central-bank officials have recently suggested that, for them, the picture for capital expenditure will be the key in deciding when to raise interest rates, which have been at zero for six years. Hence the importance of the bank's latest quarterly Tankan survey of business conditions, released on July 3rd.

The survey showed growing corporate optimism, and a sharp upswing in firms' plans to invest. For instance, large companies of all kinds now plan to boost capital expenditure by nearly 12% in the fiscal year that began in April, compared with plans reported in the March survey to boost spending by less than 3% over the same period. Notable, too, was a marked improvement in conditions reported by non-manufacturers, large and small. A shortage of skilled workers was also confirmed.

Strong business sentiment and a tight labour market: the Tankan survey makes it hard for the Bank of Japan any longer to put off the decision to start “normalising” rates—particularly since the stockmarket has now recovered its poise after worrying falls in May and early June. On the survey's publication, the market for euroyen futures instantly priced in the probability of a quarter-point rise at the end of the BoJ's policy-board meeting on July 13th and 14th, along with a further rise of the same magnitude later in the year. Yet with today's rate of core inflation, even a cumulative half-point rise in interest rates would not represent “normalisation”, for real interest rates would remain below zero—after inflation, you would still be paid to borrow. The prices of euroyen futures indicate a further half-point rise in interest rates next year.

Some (politicians, more than economists) worry that raising rates will slow the economy. The last time the BoJ raised rates, in August 2000, the result was disastrous and policy had to be reversed a few months later. However, with the economy looking hale—real GDP grew by 3.8% in the year to the first quarter—such concerns now look overdone.

If the Bank of Japan did not raise interest rates next week, financial markets would now be surprised; if it did not raise them in August, they would be shocked. That is because of the uncomfortably politicised

nature of Mr Fukui's position. The governor's future was last month thrown into doubt by his admission that he had put money into the controversial investment funds of Yoshiaki Murakami, who was arrested on June 5th for alleged insider trading. The timing of the sale of Mr Fukui's stake earlier this year added to the brouhaha. On July 7th the BoJ is expected to announce a new set of rules, drawn up by outsiders, governing its senior officials' investments.

The measures are meant to forestall future controversy. But if the BoJ does not raise rates soon, it will be judged to have bent to political pressure as a result of Mr Fukui's weakened position, a suspicion that would gravely undermine its credibility. As it is, both the finance minister, Sadakazu Tanigaki, and the interior minister, Heizo Takenaka, this week urged the bank not to move, saying that deflation was not yet definitively beaten. In mid-July, a leadership race among the ruling Liberal Democratic Party will begin, for the succession to the prime minister, Junichiro Koizumi, who retires in September. The BoJ will not want to be caught in the middle of that if it can possibly help it. Better, in other words, to strike early.

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Japanese financial regulation

Re-energised

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Now for the clean-up

FOR Japan's financial industry, the penalty for not playing fair with its customers is getting stiffer. A new law that came into effect this week doubles the maximum jail sentence for fraud, to ten years, and increases the ceiling on fines to ¥700m ($6m). The new rules, which tighten 89 existing laws, will be in full force by the end of next year.

The law also gives extra power and broader authority to the Financial Services Agency (FSA), Japan's financial regulator, which is already cracking down on sharp practice in one part of the industry after another. On July 1st, three days before the new law came in, ChuoAoyama PricewaterhouseCoopers, a leading auditor, began a two-month ban from business, an unprecedented penalty for such a firm, for its involvement in accounting fraud.

Recently the regulator imposed an indefinite ban on Mitsui Sumitomo Insurance, the second-biggest non-life insurer, from selling medical insurance, a rare area of growth in an saturated industry. In addition, the agency will authorise no new products from Mitsui Sumitomo for a year. Besides having failed to meet 44,000 car-insurance claims without good cause, it committed accounting fraud at its British subsidiary and denied medical-insurance claims without consulting doctors. Sompo Japan, another non-life insurer, has also been punished for not paying out when it should have. However, its penalty was lighter, because the regulator judged that its offences stemmed from slack internal controls that were unable to cope with increasingly complicated policies.

Among banks, SMBC, the third-largest, was clobbered after another regulator complained that it had coerced some small and medium-sized companies into buying interest-rate swaps. Aiful, one of Japan's top consumer lenders, has had to suspend operations for heavy-handed collection methods. JPMorgan's Tokyo branch was penalised for market manipulation. Shinsei Trust, part of Shinsei Bank, was reproached for including buildings that broke laws on construction standards in real-estate investment trusts.

Hirofumi Gomi, commissioner of the FSA, explains why his agency has become stricter. After the financial crises of the late 1990s, he says, life insurers and banks struggled to stay in business: managers focused on raising profits and let internal controls slide. The regulator had to concentrate its limited resources on getting banks and insurers back on their feet. Now circumstances have changed. In particular, the banks' bad loans have been cut to reasonable levels. “The FSA can go about its real business of protecting consumers, and making the financial-services market more accessible, for the first time since it was established [in 1998],” says Mr Gomi.

Some have criticised the FSA's recent actions. ChuoAoyama's suspension, for example, caused turmoil for some audit clients. Mr Gomi says it was nevertheless the best option, given that the law does not allow the FSA to fine accounting firms. No one should expect oversight to slacken again. Fresh laws are being drawn up to permit fines and to shorten rotation periods so that auditors do not get too chummy with their clients. Consumer finance, another industry with endemic problems, is also facing sweeping changes designed to put an end to illegal collection practices and stop customers borrowing from lots of lenders.

The effects of the law that came in this week are still unclear. It covers most “investment products” (including, say, foreign bank deposits and variable annuities) and will enable the regulator to scrutinise providers more closely and impose stiffer penalties. However, it does not cover “savings products” (such as straightforward insurance policies or savings accounts). If the law works, says Mr Gomi, the next step will be to broaden it to fill some of those gaps. For the moment, the regulator plans

to watch how other companies react to seeing harsher punishments meted out to their rivals. “They need to improve their internal controls and compliance on their own,” he says. If not, watch out: more pain could be inflicted in the cause of a cleaner, consumer-friendly industry.

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Emerging markets

Spot the difference

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Investors are becoming more selective about developing-world assets

LIKE disgraced politicians, emerging markets are doomed to be known for their vices rather than their virtues. Years of repaying foreign debt and balancing the books after the Mexican, Asian and Russian crises of the 1990s seemed to count for little in May and June, when global stockmarkets tumbled and investors dumped the developing world's shares.

It was no routine sell-off. Credit Suisse, a bank, describes the five-week period between May 8th and June 13th, when emerging stockmarkets lost a quarter of their value, as the worst run since the Russia-related scare eight years ago. Three currencies, Turkey's lira, Hungary's forint and the South African rand, fell to near three-year lows. However, the turmoil did not endure. Perhaps it is a measure of the growing maturity of emerging markets that before anyone could coin a name for the drama (inevitably terming it a “crisis”) a recovery of sorts had begun.

Some features of that rebound—MSCI's emerging-market index has recouped 15% since June 13th—suggest that investors in emerging markets may at last be growing up. After the initial panic, in which the most liquid markets were the easiest to dump, investors became more selective.

For example, Brazil's currency recovered quickly (see chart); in the contagious days of tequila effects and stricken tigers it would have faced mob selling. Hungary and Turkey were the worst-hit European markets in June, but Russia's stockmarket, buoyed by high oil prices, climbed by 2.4%. Mexican markets, however, remain choppy. Having wavered ahead of a presidential election on July 2nd, they shot up when the centre-right's candidate looked likely to win but fell when a recount cast doubt on the result (see article).

Also, investors now appear to be bargain-hunting, even in the most vulnerable markets. In May and June Turkey was hit particularly hard because of its high current-account deficit and expensive currency. Now, some investors say the fall in the lira in the past two months may help restore equilibrium; overnight lending rates of 22.25% increase the lure. On July 3rd the currency climbed more than 2% against the dollar after inflation numbers came in better than expected. Elsewhere the tide has already turned. According to Goldman Sachs, foreigners put $1.5 billion more into emerging Asian shares than they took out in the last week of June, after three weeks of net selling. That helped push the MSCI index of Asian stockmarkets (excluding Japan) up by 3.7%, the largest weekly gain since October 2002.

There are several reasons why emerging-market investors might feel more inclined to keep faith than they used to. As PIMCO, a big asset-management company, points out, last year the combined GDP of Brazil, China, India and Russia, measured at market exchange rates, eclipsed that of Japan, the world's second-largest economy. And they are growing much faster than Japan. Emerging economies' ratios of sovereign debt to GDP are falling, and more debt is being raised in local currencies or by firms. In May, developing countries issued no foreign-currency sovereign debt, but companies from these economies raised $8 billion, PIMCO says. Prices of emerging-market shares remain modest, relative to earnings, compared with their peaks in the dotcom boom. Some exporters, such as South Korea's Samsung Electronics, are so international that their valuations should anyway bear little relation to their countries of origin.

The risk, however, is that this emphasis on prudent debt management and export-led growth is a plan for yesterday's war—the one that weakened emerging markets in the 1990s. Stephen Roach, chief economist at Morgan Stanley, warns that future trouble may well come from a different quarter. “At the top of my list is the possible capitulation of the American consumer,” he writes. In 2005 exports were a far higher proportion of the output of developing countries than of rich countries, leaving emerging markets more at risk from a drop in American demand. This may still not be fully priced into emerging-market asset prices, he believes. That fear is shared by others, who say that it makes sense to switch into assets more tied to domestic markets, such as banks.

That said, a pick-up in growth in Japan and Europe ought to cushion the blow to exporters from an American slowdown. In any case, should all these rich economies stumble, it is not just emerging-market investors that will suffer.

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Economics focus

Apples are not the only fruit

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The economics of France's attempt to open up iTunes

Get article background

APPLE COMPUTER prides itself on creating products that fit together without ugly joins or haphazard stitching. The iPod is a prominent example. A portable digital jukebox, it works seamlessly with Apple's own iTunes music store, a popular site for buying downloadable music. But on June 30th France's Senate and National Assembly did their best to unpick Apple's careful weaving. The law they passed is supposed to allow customers to play music bought from iTunes on one of the iPod's rivals. Consumers, the French hope, will be able to mix and match players and stores as easily as they do ties and shirts.

When signed, the law may well be ineffective. Copyright-holders may step in at Apple's behest and prevent their music being played on rival devices. If it has any effect, the law may backfire. For Apple, France is a dispensable nation. The company could quit the country altogether rather than allow its competitors to take advantage of its music store. As a result, the law may leave France's digital music-lovers with less choice, not more.

Put these practical difficulties aside, and ask whether France's policymakers identified a real problem. Are they right to worry about the inseparability of Apple's store and its player?

Such controversies normally turn on the analogy chosen to illuminate them: is the iPod like a CD or cassette player, or an inkjet printer? Since it appeared in 2001, the iPod has become this decade's answer to the Sony Walkman. Supporters of the French law point out that if you buy a music cassette at a shop, you can listen to it on any cassette player that takes your fancy. You do not have to play it on a Walkman. Why then can customers not listen to songs from Apple's music store on whatever player they like? Surely Apple is guilty of exploiting the popularity of its store to stifle rivals to its iPod?

The law's opponents reach for different analogies. They compare the iPod not to the Walkman, but to printers, games consoles and razors. Buy an inkjet printer, for example, and you must buy the manufacturer's cartridges to be sure that it will work properly. (Although French parliamentarians will not come to your rescue, European regulators might.) Indeed, manufacturers make much of their money from the cartridges, not the printer itself, which is often sold cheaply. Economists explain this business model as a clever way for companies to “meter” their customers, charging them according to use. If they could not tie their customers to their cartridges, they would charge more for the printer itself, and the kind of person who now uses his printer rarely would not buy one at all.

Apple's business model, however, turns this on its head. Apple makes its money from sales of the iPod, not sales of music; the printer, not the cartridge; the razor, not the blade. As Bill Shope, an equity analyst at JPMorgan, puts it, the music store is a “loss leader” that serves only to boost sales of the iPod. It is as if record stores existed only to sell record players.

Beware geeks bearing gifts

How vital is this loss leader? Mr Shope points out that iPod sales took off after the store was launched in April 2003. That said, only a small fraction of the stuff on a typical iPod comes from Apple's store. Most of it is still copied from CDs and some is acquired through file-swapping technologies such as BitTorrent. People do not become iPod customers to take advantage of the iTunes music store. But, argues Mr

Shope, the store may be an important reason why they stay customers.

Because the music store is only compatible with the iPod, a customer who wants to abandon Apple's player in favour of something else must replace all the music he downloaded from the store. It is as though a person's entire record collection worked on only one brand of gramophone. Hence with each song a customer buys, he binds himself a little more tightly to the iPod. Apple offers its customers a “Trojan horse”, according to Mr Shope. Customers embrace its iconic device, and then, like the hapless Trojans, find they have fallen into the hands of the gift-givers.

Are consumers so easily duped? The so-called Chicago School of antitrust economists, represented most prominently by Robert Bork, once a nominee to America's Supreme Court, and Richard Posner, another judge, assumes consumers are rather smarter than the Trojans were. Customers must know that any music they buy from Apple will work only on the iPod—it is not a secret. If they nonetheless choose to buy it, they must think the benefits the music store offers outweigh the switching costs it imposes. No doubt Apple's music store would be more attractive still if it were opened up to any player. But if Apple chooses not to do this, that is its business.

Some economists think that this view is too sanguine. They argue that the appeal, or otherwise, of tying yourself to a company depends on what other customers do. If everyone else gives up the ability to shop around, then no rival company can enter the market, because most of its potential customers are already wedded to the incumbent. And if no alternative can enter the market, then the freedom to shop around is not worth very much. One need not worry about switching costs if there will never be anything to switch to. Applied to Apple, this argument goes something like this: every time someone buys a song on iTunes, he becomes a little less likely ever to abandon the iPod and makes the potential market for iPod's rivals a little smaller.

Mr Shope thinks iPod customers, having spent money on their iTunes collections, will prove quite “sticky”. But Apple cannot rest too easily. The market is young and customers' commitment may not yet be deep. Just as CDs prompted record-lovers to abandon their vast collections of vinyl, a rival to the iPod, were it good enough, could tempt audiophiles to abandon their iTunes collections—with or without help from France.

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Memory formation

The big sleep

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There may be a link between the way memories are formed and the adverse effects of sleep deprivation

TAXI

SLEEP deprivation is an uncomfortable experience. In drivers and workers it can lead to fatal accidents. In those under interrogation it can lead to confession. But why it does what it does is mysterious—as, indeed, is the purpose of sleep itself.

Many theories have been proposed to explain why the pressure to sleep builds up until it becomes irresistible. The latest, presented at the recent annual meeting of the Organisation for Human Brain Mapping, in Florence, Italy, starts from the obvious proposition that the longer you stay awake, the more you learn. Giulio Tononi of the University of Wisconsin proposes that this extra learning makes the brain more and more expensive to maintain. Sleep prunes back the grey matter so that, come the morning, the brain is once again economical to run. If this pruning cannot take place, the organ becomes less and less efficient, and dire consequences result.

Even at rest, the brain is costly to run, consuming 20% of the body's energy production. Most of this energy goes towards maintaining synapses, the junctions across which impulses jump from nerve cell to nerve cell, keeping the brain alert even when it is not doing anything. When a person learns something new, certain synapses are strengthened relative to others. Over the course of the day, there is a net increase in the strength and number of the brain's synapses. And, as Dr Tononi observes, stronger synapses consume more energy. In addition, making them requires more protein and fats and they take up more space. Given that an organism has limited supplies of all of these things, something must happen to prevent the cost of having a brain from gradually spiralling out of control. That something, Dr Tononi believes, is non-rapid eye movement (non-REM) or slow-wave sleep.

Knitting up the ravel'd sleeve of care

Until recently, most sleep research focused on REM sleep. This is the time when people dream, and dreams have had a grip on the scientific imagination since the days of Freud, and on the popular

imagination at least since biblical times. Lately, though, researchers have started to wonder whether they have been looking in the wrong place for the significance of sleep, for REMming occupies only about a fifth of the night.

During the other 80% of sleep—the part that is non-REM—the firing pattern of the brain's nerve cells sets up slow electrical waves that start at different points in the cerebral cortex and travel across it. These travelling waves occur hundreds of times a night, and most commonly at a frequency, 1 cycle per second, which has been shown to depress the activity of synapses.

Within an hour of a person falling asleep, slow waves will have covered his entire cortex, affecting every nerve cell in it. At first, these waves are big and powerful, but their size decreases through the night. Dr Tononi believes that the function of these slow waves is to “downscale” synapses, reducing their size, chemical activity and electrical activity—and thus the strength with which they connect their nerve cells together—all over the brain.

The trick, he thinks, is that this downscaling is done in proportion to the existing strength of each synapse. When a sleeper awakens, the strength of each synapse is thus the same relative to all the others, but all synapses are weaker than they were when he went to sleep. Indeed, the weakest of them may vanish completely, taking part of the previous day's memory with them.

In earlier experiments, designed to replicate normal learning, Dr Tononi found that the part of the brain showing most slow-wave activity during sleep was the same as the part that had been activated during the experiment. This fitted the prediction that the downscaling slow-waves would be strongest in those parts of the brain where the most changes had taken place during the day.

The team's latest work draws not on human subjects, but on fruit flies. Flies, too, sleep. Their genetics—including the genetics of sleep—have been studied for almost a century, and many of the genes that play a role in human sleep resemble those that control sleep in fruit flies. Best of all, experiments on fruit flies are not subject to vetting by ethics committees.

With the help of Chiara Cirelli, who also works at the University of Wisconsin, Dr Tononi has created a mutant fruit fly that sleeps only two or three hours a night. (A normal fly sleeps between eight and 14 hours.) The mutation itself is in a gene for a nerve-cell protein of a type known as an ion channel.

Ion channels sit in a cell's outer membrane and let electrically charged atoms (ions, as they are known in chemical jargon) in and out of the cell. In this case, the ion is potassium. It is the movement of potassium (and also sodium) ions that causes the electrical impulses that nerve cells carry—including the impulses found in slow-wave sleep. Moreover, the particular protein that the flies lack is most concentrated in brain areas involved in learning and memory. To nobody's surprise, therefore, though the mutant fly is capable of learning things, it forgets them within minutes. Healthy flies retain learned information for hours or even days.

The researchers' discovery finds an intriguing echo in a human disease called Morvan's syndrome. This is a rare brain disorder that is caused by an autoimmune response which destroys the human equivalents of the ion channels that are affected in the mutant fruit fly. Patients with Morvan's syndrome suffer from severe insomnia and have been known to go for months without sleeping. Eventually, this extreme sleep deprivation kills them.

Dr Tononi's hypothesis is, it must be said, controversial. Many researchers hold almost precisely the opposite opinion—that sleep serves to re-activate synapses that were strengthened during the day, and thus reinforces their strength rather than diminishing it. There is, however, a certain logical sense to the Tononi view of the world. It is impossible to remember everything, so a process of winnowing must take place somehow. The idea that, after a period of expansion, the brain pares back its workforce to become leaner and meaner is somehow rather appealing.

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About sponsorship

Proteomics

Go forth and multiply

Jul 6th 2006
From The Economist print edition

A study of brain proteins has linked oxidative damage to disease

AFTER the genome, the proteome! That was the cry when the scientific bigwigs running the Human Genome Project were asked what came next. Proteomics—identifying the structure and abundance of all of the proteins in an organism, as genomics sought to identify all of the genes—is a harder and more open-ended task. But, in the end, it is proteins, not genes, that do the actual work in a cell. It is therefore the failure of proteins that actually causes disease, whether that failure is the result of design faults that have been introduced by mutant genes or is just damage from wear and tear.

The genome project thrived on big egos. By contrast, those studying the proteome have been self-effacing, which is why the news is not full of their antics. But although proteomicists have been quiet, they have not been idle, and their results are now starting to appear in scientific journals. This week, for example, saw the publication in *Biochemistry* of a proteomic study that goes a long way towards establishing a common underlying cause for neurodegenerative diseases such as Parkinson's and Alzheimer's.

It has been known for some time that these conditions involve the accumulation of damaged and misfolded proteins, but what causes that malformation is the subject of debate. Colette Sacksteder, of Pacific Northwest National Laboratory in Richland, in the state of Washington, and her colleagues used proteomic techniques to confirm that a process called nitration is at least part of the cause.

Nitration is one of a range of damaging chemical processes that are lumped together as “oxidative stress”. It has been linked to cellular ageing and cardiovascular disease, and a connection between oxidative stress in general and neurodegenerative disease in particular has been suspected for a long time. To investigate this in more detail, Dr Sacksteder and her team decided to search for all the brain proteins that are susceptible to nitration—though they used mouse brains rather than human ones as their raw material.

This was a huge task. There are more sorts of protein in the brain than in any other bodily organ, though nobody knows exactly how many. Some catalogues already exist, but Dr Sacksteder decided to start from scratch and build a new one.

To do so, she and her colleagues first broke down all the proteins of samples taken from healthy mouse brains into smaller units called peptides. A peptide is a short chain of the amino-acid molecules that are the ultimate components of proteins. By sorting these peptides according to characteristics such as their electric charge and their attraction to water, and then separating them by their molecular weights in machines called mass spectrometers, the team was able to work out the exact composition of each peptide.

Fitting the peptides back into their original proteins is a task that requires a lot of computing power, but when they had finished, the researchers reckoned that they had identified almost 8,000 proteins—the largest catalogue of mammal-brain proteins yet compiled. Mass spectroscopy is so sensitive, though, that it can tell the difference between a nitrated and an un-nitrated peptide. As a result, the team was able to recognise 29 proteins that came in both nitrated and un-nitrated forms. When the scientists looked at the relevant databases they found that more than half of those proteins had been implicated in one or more neurodegenerative diseases.

Following this lead, they decided to investigate the role of nitration in one disease, Parkinson's, in more detail. They injected another group of mice with MPTP, a molecule that simulates the effects of Parkinson's disease. They then measured the relative levels and patterns of nitration in the 29

“candidate” proteins and found significant increases in six of them.

Whether this work will lead to clinical benefits remains to be seen. But it is an impressive demonstration of the power of proteomics. Traditional one-protein-at-a-time methods had uncovered only half a dozen brain proteins susceptible to nitration. A single study has multiplied that number by five, and may have uncovered a general mechanism by which the brain deteriorates.

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About sponsorship

Carbon sequestration

Plumbing the depths

Jul 6th 2006
From The Economist print edition

A potential problem for the idea of burying greenhouse gases

ONE way of slowing climate change would be to prevent greenhouse gases from entering the atmosphere in the first place. In the case of carbon dioxide, a widely discussed suggestion is to capture it when it is produced in power stations and other large industrial plants, and store it in geological formations from which it cannot easily escape. Oilfields, natural-gas fields, aquifers filled with seawater and depleted coal seams are all possibilities.

Oil companies have long pumped carbon dioxide into depleted fields—not for environmental reasons, but because it forces out the remaining oil. America has 80 such fields, some of which are 30 years old. Aquifers full of brine, however, could be better because there are so many of them, and they often lie close to offshore oil- and gas-fields. Statoil, Norway's national oil company, started pumping carbon dioxide into aquifers under the North Sea a decade ago and BP has a similar onshore project in Algeria.

But few studies have looked at what happens once the gas is in the ground. In October 2004 a group of researchers led by Yousif Kharaka of the United States' Geological Survey in Menlo Park, California, pumped 1,600 tonnes of carbon dioxide into the Frio formation, a disused brine and oil reservoir east of Houston, Texas. The results of their experiment have just been published in *Geology*.

The team compressed the gas into its liquid form and pumped it into a layer of sandstone 24 metres thick, lying 1.5km (about a mile) under the surface. They have been monitoring the site ever since, and so far they have found no leaks.

What they have, however, found is that the carbon dioxide has increased the acidity of the water in the aquifer. This, in turn, has dissolved the minerals that hold the sandstone together. As their report puts it, “this rapid dissolution of carbonate and other minerals could ultimately create pathways in the rock seals or well cements for carbon dioxide and brine leakage.”

Although changes in the rock made in a year can certainly be described as rapid, the concept of “ultimately” in geological time could be thousands—or even millions—of years. So there may be no need to worry unduly. But Dr Kharaka nevertheless suggests that the sequestration of carbon dioxide should be confined to deep aquifers, where overlying layers of shale would be likely to prevent leaks.

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About sponsorship

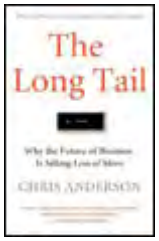
What the long tail will do

Wag the dog

Jul 6th 2006
From The Economist print edition

A new book about entertainment, technology and statistics predicts that popular culture—and the businesses associated with it—will be transformed by the internet.

The Long Tail: Why the Future of Business is Selling Less of More
By Chris Anderson



Hyperion; 238 pages; $24.95.
Random House Business Books; £17.99

Buy it at
Amazon.com
Amazon.co.uk

FOR the past two years in Silicon Valley, the centre of America's technology industry, conference-goers have entertained themselves playing a guessing game: how many times will a speaker mention the phrase “long tail”? It is usually a high number, thanks to the influence of the long-tail theory, which was first developed by Chris Anderson, the editor of *Wired* magazine, in an article in 2004. Though technologists and bloggers chuckle at how every business presentation now has to have its long-tail

section, most are envious of Mr Anderson, whose brainwave quickly became the most fashionable business idea around.

Whether a blockbuster film, a bestselling novel, or a chart-topping rap song, popular culture idolises the hit. Companies devote themselves to creating them because the cost of distribution and the limits of shelf space in physical shops mean that profitability depends on a high volume of sales. But around the beginning of this century a group of internet companies realised that with endless shelves and a national or even international audience online they could offer a huge range of products—and make money at the same time.

The niche, the obscure and the specialist, Mr Anderson argues, will gain ground at the expense of the hit. As evidence, he points to a drop in the number of companies that traditionally calculate their revenue/sales ratio according to the 80/20 rule—where the top fifth of products contribute four-fifths of revenues. Ecast, a San Francisco digital jukebox company, found that 98% of its 10,000 albums sold at least one track every three months. Expressed in the language of statistics, the experiences of Ecast and other companies such as Amazon, an online bookseller, suggest that products down in the long tail of a statistical distribution, added together, can be highly profitable. The internet helps people find their way to relatively obscure material with recommendations and reviews by other people (and for those willing to have their artistic tastes predicted by a piece of software) computer programs which analyse past selections.

Long-tail enthusiasts argue that the whole of culture will benefit, not just commercial enterprises. Television, film and music are such bewitching media in their own right that many people are quite happy to watch and listen to what the mainstream provides. But if individuals have the opportunity to pick better, more ideally suited entertainment from a far wider selection, they will take it, according to the theory of the long tail. Some analysts reckon that entire populations might become happier and wiser once they have access to thousands of documentaries, independent films and sub-genres of every kind of music, instead of being subjected to what Mr Anderson calls the tyranny of lowest-common-denominator fare. That might be taking things a bit far. But the long tail is certainly one of the internet's better gifts to humanity.

Conglomerates, such as Rupert Murdoch's News Corporation, on the other hand, regard the long tail as another swing at them from a dragon-like blogosphere which resents the “mainstream media” or MSM, as bloggers often call it. Lowest-common-denominator hits, after all, are an important part of their business. Like many people connected to the technology industry, Mr Anderson (formerly a journalist for *The Economist*) clearly relishes the way the internet is challenging traditional media companies. Perhaps because of this, he is a little too dismissive of hits. Some are indeed manufactured and cynical: the music industry bribes radio stations to blitz people with tracks they have picked; book publishers pay retailers for the spot in the window; and Hollywood holds back films from honest reviewers lest a bad write-up spoil an opening. But most hits are popular because they are of high quality. As Mr Anderson's book acknowledges, there is an awful lot of dross in the tail. And the way in which the internet makes it easy for people to share likes and dislikes about entertainment will help hits as well as more obscure material.

Mr Anderson has backed away somewhat from his original article in *Wired* in which he suggested that the long tail would be a bigger market than the hits. His book says, more cautiously, that “all those niches can potentially add up to a market that is as big as (if not bigger than) the hits.” Perhaps the true effect of unlimited digital distribution on individual media choices will be even more positive than he imagines. It may be that only the middling, manufactured sort of hit will fall by the wayside: the genuinely popular variety will remain just as powerful. Most hits start somewhere in the long tail and move up; so as content in the tail becomes easier to discover, the hits that emerge from it should also be of higher quality.

One weakness of this otherwise excellent book is that it tries to apply the theory of the long tail to fields far beyond entertainment and e-commerce. Offshoring, for instance, is the long tail of labour, says Mr Anderson, and there is also a long tail of national security, in which a “short head” of state violence has been challenged by niche producers such as gangs and terrorists. In trying to find long tails everywhere, Mr Anderson risks diluting some of his idea's meaning and novelty.

The cover of Mr Anderson's book promises to answer the question: “Why the Future of Business is Selling Less of More”. But his book may alarm as well as help businessmen. Karl Marx once described a communist society in which “nobody has one exclusive sphere of activity but each can become accomplished in any branch he wishes...to hunt in the morning, fish in the afternoon, rear cattle in the evening, criticise after dinner.” Mr Anderson suggests that the long tail is bringing about something similar. The tools of media production—computers, desktop printers, video cameras—are now so widely

and cheaply available that a generation of young people are becoming amateur journalists, commentators, film-makers and musicians in their spare time, rather as the philosopher imagined. Amateurs offering their work free of charge will contribute a significant portion of the long tail, so at the very end there will be a “non-monetary economy,” says Mr Anderson. If true, that could prove to be the most fascinating long-tail effect of all.

The Long Tail: Why the Future of Business is Selling Less of More.
By Chris Anderson
Hyperion; 238 pages; $24.95.
Random House Business Books; £17.99

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About sponsorship

The transport business

High rollers

Jul 6th 2006
From The Economist print edition

IF YOU choose lobster from a menu, then wherever you are in the world, the odds are that your dinner may have come from Arichat in Nova Scotia. The lobster, trapped off the Canadian coast, would have been driven to Louisville, Kentucky, where, cocooned in gel packs and styrofoam, it went for a wild ride on the carousels of the UPS superhub, where 17,000 high-speed conveyor belts, carrying more than 8m packages a week, whisk your living lobster to a plane and on onto tables across the globe.

Uncommon Carriers
By John McPhee

Farrar, Straus & Giroux; 256 pages; $24

Buy it at
Amazon.com
Amazon.co.uk

John McPhee's new book is about supply lines: how a lobster shares a conveyor belt with Bentley spare parts and Jockey underwear. It is about boats, trains and trucks, but mostly it is about the people who drive, tend and love the machines. Don Ainsworth owns an 18-wheeler with “a tractor of such dark sapphire that only bright sunlight could bring forth its colour.” To wash his truck Mr Ainsworth uses only water that has either been de-ionised or has undergone reverse-osmosis; anything else leaves spots. “This is as close as a man will ever know”, he says, “what it feels like to be a truly gorgeous woman. People giving us looks, going thumbs up.”

He carries chemicals all across North America where his enemies are 'gators, bears and four-wheelers. 'Gators are huge strips of shredded tyre littering the highways and just one of them “can rip off your fuel-crossover line”. A bear is a policeman, while a four-wheeler is any vehicle that has fewer than 18 wheels. They buzz around like gnats, seemingly unaware that a real vehicle, one with 18 wheels or more, cannot stop on a dime.

Mr Ainsworth is a good man and it is plain that Mr McPhee, another good man, likes him, just as he likes the crew of the *Billy Joe Boling*, a towboat which, perversely, pushes 15 barges up the Illinois River. The barges carry 30,000 tons of pig-iron, steel coils, fertiliser and furnace coke. Lashed together with steel cables which are then tightened with cheater bars, the *Billy Joe Boling* shoves forward a metal raft that is longer than an aircraft carrier. Along the way, the captain copes with bridges, locks, currents, shoals, winter ice 18 inches thick and summer ladies flashing at him. “We brought 12,000 tons of coke up the Illinois River,” the skipper tells the author, “and now we're pushing 14,000 tons of coke down the Illinois River. One day they'll figure it out and put us out of a job.”

The bosses also want to put the drivers of the coal trains out of a job. They dream of automated trains running endlessly along the 1,800 miles (2,880km) between the strip-mines of the Powder River Basin and Georgia's Plant Scherer, the world's largest coal-fired power station. The train that Mr McPhee rides is a mile and a half long, and has 133 gondolas, each of which carries 115 tons of coal, and all of it, the whole trainload, will keep Plant Scherer burning for just eight hours. This book will keep you going much longer. It is Mr McPhee at his wise, wry best, writing in top gear which, as Mr Ainsworth will tell you, is the 18th: “the going home gear, the smoke hole”.

Uncommon Carriers.
By John McPhee.
Farrar, Straus & Giroux; 256 pages; $24

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Maritime history

The sailor's friend

Jul 6th 2006
From The Economist print edition

PLIMSOLLS, the rubber-soled, canvas shoes worn by schoolchildren and celebrities alike are a familiar piece of footwear. But how many people know that they are named after Samuel Plimsoll, an Englishman whose tireless campaigning ended Victorian shipping malpractices and saved thousands of sailors' lives?

In her scholarly biography, Nicolette Jones lifts the lid on the life of an extraordinary man from an ordinary background. Plimsoll was born in 1824, the son of an excise man. After working for a decade as a brewery clerk, he made a disastrous foray into the coal trade that bankrupted him, and at the age of 32 was arrested for assaulting the tollkeeper on London's Waterloo Bridge. Despite this undistinguished start, he rose to become Liberal MP for Derby, took up a cause that stirred the nation, wrong-footed a prime minister and, for a while, was the most popular man in the country.

The Plimsoll Sensation: The Great Campaign to Save Lives at Sea
By Nicolette Jones

Little, Brown; 416 pages; £20

Buy it at
Amazon.com
Amazon.co.uk

In the mid-19th century one British mariner in five died at sea. Mortality among sailors was higher than in any other occupation and between 1861 and 1870, 5,826 ships were wrecked off the British coast with the loss of 8,105 lives. Vessels were either overloaded and unstable, or were in such a poor state of repair that they inevitably sank. Unscrupulous shipowners could profit by deliberately over-insuring these “coffin ships” knowing that they were likely to founder.

The cruel loss of life and the impoverished widows and children left behind inspired Plimsoll to take up the sailors' plight. In an era of popular agitation for social reform his campaign for maximum load lines for ships to be written into law became a “milestone in the progress of people power”. Plimsoll and his cause caught the public imagination: he was lauded in the *Times*, caricatured in *Punch* and *Vanity Fair*, and supported by Queen Victoria. However, he encountered antagonism in the House of Commons, where MPs with vested interests played a long-winded stalling game.

Eventually, after six turbulent years, during which his health suffered, his sanity was questioned and libel cases piled up against him, Plimsoll's legacy was secured when the 1876 Merchant Shipping Act was passed. It required the hull of every cargo ship to be marked with the level of maximum submergence—a mark that to this day is called the “Plimsoll line”.

Ms Jones's strength lies in bringing to life the sailor's friend and the political climate in which he battled. “Ambition and altruism, in fine balance, were at Plimsoll's core,” she writes of the man who, once he had taken on his cause, would be “restless and distressed on stormy nights”. The author clearly outlines the infighting and backstabbing of the political process, taking the reader from courtroom conflicts to a spectacular breach of protocol in the House of Commons when, on learning of Benjamin Disraeli's decision to abandon the Shipping Bill for that session, Plimsoll lost his temper, furiously railing against the shipowners with “murderous tendencies” represented in the House.

Elegantly written, “The Plimsoll Sensation” is a testament to the might of public opinion and the conviction of a passionate man. And those canvas shoes? They were named plimsolls in 1876 by a salesman for the Liverpool Rubber Company. Why? Because submerging them above their rubber trim results in disaster.

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By Nicolette Jones.
Little, Brown; 416 pages; £20

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Alan Turing

A man who counted

Jul 6th 2006
From The Economist print edition

ADVANCED mathematics is a hard sell, but David Leavitt's biography of Alan Turing, which was published in America last December and is just coming out in Britain, will give even the most innumerate reader an idea of the beautiful and fascinating world he is missing.

Mr Leavitt does not use the word, but in today's parlance Turing, a brilliant misfit who laid the foundations of modern computing and cryptography, would probably have been called autistic. He took things very literally, was almost incapable of lying, cared little for his outward appearance, and was rather bad at understanding what other people felt or meant. None of that helped him live a happy life.

But understanding numbers was another story. Turing's mathematical genius first flowered at school, and then bloomed in the laid-back, brainy atmosphere of 1930s Cambridge. His “vice” (as many termed it then) of homosexuality was regarded sympathetically, at least within the walls of King's College.

The author does a fair job of portraying both the world of pre-war scholarship and the Bletchley Park code-breaking centre where Turing spent the war years. There he created electro-mechanical contraptions that, combined with genius, patience and a lot of help from Poland, cracked the Nazi Enigma code. Without that, the war would have gone on for much longer—perhaps long enough for Hitler to get an atom bomb and win it.

He also portrays convincingly the bureaucratic struggles and intellectual snobbishness that surrounded the development of computing in Britain. Machines that seem to think prompted the same mixture of muddle and panic then that they do now.

Mr Leavitt does his best to explain the principles of both mathematics and philosophy, although it is probably impossible to explain the principles of advanced maths, cryptography and computer design in a way that is simple enough for even the most indolent reader to understand. Mr Leavitt's self-confessed lack of a mathematical background does not help his accuracy. Goldbach's Conjecture, a famous mathematical problem, for example, states that any even whole number is the sum of two primes. Mr Leavitt leaves out the word “even” which may have some readers scratching their heads as they reach for pencil and paper.

The author shows considerable sympathy with Turing's homosexuality and the difficulties he faced as a result of it; when convicted for “gross indecency” in 1952, he was forced to have oestrogen injections, a form of chemical castration that also, humiliatingly, made him grow breasts. He committed suicide two years later. By today's standards that was outrageous treatment. The author implies that this was exceptional. Sadly, in the climate of the day, which treated homosexuality as an abhorrent mixture of sickness and weakmindedness, rather as paedophilia is regarded now, it was not. To see him chiefly as a gay martyr is a mistake. Turing's life added up to more than that.

The Man Who Knew Too Much: Alan Turing and the Invention of the Computer.
By David Leavitt
Norton; 288 pages; $22.95
Weidenfeld & Nicolson; £16.99

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The myth of the kamikaze pilot

Pro patria mori

Jul 6th 2006
From The Economist print edition

“HOW unbearable to die in the sky,” wrote Tadao Hayashi, a student pilot, in his diary on July 27th 1945, the night before his plane was shot down. Hayashi's writings, like those of the other Japanese student soldiers compiled in this book, contradict the caricature of the fanatical kamikaze pilot imagined by Americans and Britons during the war, and challenge the myth of the nationalist hero spun by conservative institutions in Japan.

Kamikaze Diaries: Reflections of Japanese Student Soldiers
By Emiko Ohnuki-Tierney

University of Chicago Press; 246 pages; $25

Buy it at
Amazon.com
Amazon.co.uk

The student soldiers, argues the author, were wantonly sacrificed in the military government's final gambit of the war. She reveals that the *tokkotai* (“special attack force”, which is how the kamikaze are referred to in Japan) had no volunteers when it was formed in October 1944. Instead, new recruits were either assigned by their superiors or forced to sign up using pressure tactics. No senior officer offered his life for this mission; instead the “volunteer” corps comprised newly enlisted boy-soldiers barely of age and student conscripts from the nation's top universities.

The poems, letters and diaries featured in this book give the lie to the notion that Japan was unified behind the war. The voices of the student soldiers speak thoughtfully and eloquently about their dilemma between duty to the nation and wanting to stay alive. Most of them had been drafted late in the war and represented the country's intellectual elite. Well-read, many of them turned to European literature and philosophy to rationalise their deaths. “Zwei Seelen wohnen ach in mein Herz!” (“Ah, two souls reside in my heart!”) cries Hachiro Sasaki, as he seeks to reconcile his patriotism with his desire to live. Another pilot carries Soren Kierkegaard's “The Sickness Unto Death”, together with the Bible, on his final flight. Just like any young adolescents far from home, the student soldiers were intensely lonely. At Tsuchiura naval air base, home for many of the *tokkotai*, the song they sung most often was nothing patriotic, but a lullaby in the Kumamoto dialect that went: “I am here far away from home. Even when I die, no one will cry for me; how lonely it is only to hear cicadas cry.” Death for these young intellectuals came not in a burst of fire and glory, but at the end of a long struggle they fought alone.

The word “kamikaze” entered the English language during the second world war and has endured as a symbol of Japan's zealous militarism. After the September 11th 2001 attacks on New York, they were reborn as the 20th century's suicide-bombers. The author argues that both characterisations are deeply flawed. The *tokkotai*, as she prefers to call them, did not commit suicide but were handed down death sentences in the military missions they were assigned. The al-Qaeda terrorists, on the other hand, sought death in their attempt to exert maximum civilian damage. “Kamikaze Diaries” is a timely and necessary correction of a popular myth, and an important contribution to the understanding of Japan at war.

Kamikaze Diaries: Reflections of Japanese Student Soldiers.
By Emiko Ohnuki-Tierney.
University of Chicago Press; 246 pages; $25

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Contemporary art

River dance

Jul 6th 2006 | BUDAPEST AND VIENNA
From The Economist print edition

An art project sails up the Danube from the Black Sea to Vienna

THE faces of strangers slowly emerge. Hatun, a matriarch with gold teeth, speaks of being beaten. A Kurdish dissident talks about being hounded by his police torturer. A grinning teenage boy dreams of designing cars, while young girls yearn for an education.

Artist of the floating world

These are some of the residents of Küba: a society of outcasts—criminals, dissidents, prostitutes, transvestites, the poor and the homeless—who have built a semi-autonomous no-go zone on the edge of Istanbul. Over two years Kutlug Ataman, an artist and film-maker, gained their trust and recorded their stories, using them to create an eloquent oral history.

On 40 out-of-date television screens, one for each raconteur, Küba's inhabitants tell the stories of their broken lives. At first, visitors are engulfed in babble. But as they settle into one of the mismatched armchairs—the sort that might be found in the speakers' homes—placed before each screen and listen to these accounts of life on the margins, the stories begin to exert an hypnotic appeal.

Over the past two months “Küba” has been travelling on a barge motoring, against the current, up the Danube from the Black Sea to Vienna. As the boat docked in different cities along the river—Rousse in Bulgaria, Novi Sad in Serbia, Vukovar in Croatia, Budapest in Hungary and Bratislava in Slovakia—local artists exhibited new work that they made in response to Mr Ataman's films. The result is a nomadic art project called “Küba: Journey Against the Current”: a dynamic dialogue between a travelling work of art and the artists it meets en route.

The journey from Mr Ataman's quasi-mythical Istanbul to Vienna—from the edge of Asia to the heart of Europe—has been long and symbolic. As “Küba” floated through a landscape which has seen years of war and upheaval, crossing countries that are now on the fringes of modern Europe, it sparked an artistic conversation with communities that have been marginalised through politics, religion and war. Black humour pervades the work of Nedko Solakov—art's Mikhail Bulgakov. Mr Solakov reflected on the state of his native Bulgaria by building a bar in its image, in which patrons can get a free drink depending on where they stand on the border and what they say to the bartender.

“Journey Against the Current” is produced by Francesca von Habsburg, who had earlier co-produced “Küba” in collaboration with Artangel, a London agency. The daughter of Heini Thyssen, a Swiss industrialist and art collector, Ms von Habsburg is commissioning large-scale projects that she wants to show in evocative locations rather than traditional institutions. The current show is a perfect example.

For Mr Ataman, the stories of “Küba” are universal. They raise questions about how outsiders can fit into a dominant culture and create a conversation with viewers that compels them to respond to these dispossessed people as individuals, rather than as a mass of others. Mr Ataman believes the work should be seen outside the static space of a museum and is delighted that, now the barge has docked in Vienna, “Küba” is being shown in a Jewish theatre abandoned since 1938. “Conversation or clash”, Mr Ataman declares. “I am interested in public art only in this way. It is theatre in the end.”

“Küba: Journey Against the Current” is at the Jewish theatre at Nestroyhof, Vienna, until September 9th

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About sponsorship

Kenneth Lay

Jul 6th 2006
From The Economist print edition

Kenneth Lay, founder of Enron, died on July 5th, aged 64

Reuters

SOON after the collapse of Enron, a giant American energy company, in 2001, the Rev Jesse Jackson likened its founder, Kenneth Lay, to Job. No boils disfigured Mr Lay's smooth, well-groomed head, and nothing had befallen his camels or his servants; but in his own mind, he was an innocent victim. Even after he was convicted, in May, of presiding over the most infamous of all corporate frauds, Mr Lay continued to protest that he had done nothing wrong. To most people, Enron's collapse stood for the worst sort of greed and excess. To him, his spectacular downfall seemed like an inexplicable punishment from the God he had followed so long and so devoutly.

Until Enron started to unravel, with the full extent of its creative accounting slowly becoming known, Mr Lay's life had been a model of the American dream of rising from rags to riches on the strength of merit and hard work. His beginnings were lowly. He was born in Tyrone, Missouri, in 1942, the son of a preacher who was also a sometime salesman of stoves and tractors, and would help his father make ends meet by cutting grass and delivering papers.

His start in the energy industry seemed similarly self-effacing. Armed with a doctorate in economics from the University of Houston, he got his foothold in the booming Texan oil industry at Humble Oil and Refining. In 1985 he merged Houston Natural Gas with InterNorth, of Nebraska, to form Enron. That firm, however, was to become the opposite of humble, with a banner in front of its headquarters proclaiming itself, shortly before its demise, “The world's leading company”.

Under Mr Lay, Enron was transformed from a dull gas business into a trading firm that was closer to a hedge fund than an energy producer. It also ventured abroad, although its enterprises in Brazil, India and Britain were to generate the first cracks in an image that in the late 1990s had made it one of *Fortune*'s most-admired companies and a darling of the stockmarket.

As Enron went seemingly from strength to strength, Mr Lay turned increasingly to politics, with the day-to-day management of the firm left to Jeffrey Skilling, who succeeded him as chief executive early in 2001. Mr Lay had lost his heart to George Bush, who famously called him “Kenny Boy”. He was one of the biggest donors to the Bush-Cheney campaign.

After Mr Bush entered the White House, Mr Lay—who in the 1970s, after a stint in the navy, had served

in Washington, DC, as an undersecretary of the interior—had high hopes of a seat in cabinet, perhaps as energy secretary or even at the Treasury. There he would have been a forceful advocate of markets, deregulation and free trade (as well as, alone in a Bush administration dominated by oilmen, of tackling global warming). But for reasons that remain unclear, Mr Bush overlooked him. Later, Mr Lay came to believe that the charges against him were politically motivated, as his old friend the president, himself vulnerable to allegations of wrongdoing during his time in business, decided to sacrifice him to save his own skin.

Trying to explain

To the American public, Mr Lay's greatest crime was to advise employees, as the firm crashed, to keep their Enron shares, or even to buy more, while he was selling his own to spin out a lavish lifestyle that he said he was unable to turn off “like a spigot”. Many lost most of their savings as bankruptcy left their shares worthless. At his trial Mr Lay tried to explain away his behaviour, saying that the sale was required to meet margin calls from his bankers, that Enron's lawyers had approved this, and that he was also buying Enron shares at the same time. But he did so without his famous charm, instead coming across as arrogant, prickly and, ultimately, unconvincing.

To the end, Mr Lay insisted that Enron was essentially a sound and highly profitable company, brought down by the equivalent of a run on the bank after the media reported relatively small thefts by the firm's chief financial officer, Andrew Fastow. Enron, Mr Lay maintained, had introduced important innovations in energy trading that benefited America's economy enormously (and which are now being practised by some of the world's leading investment banks). It had been accused, he once said, of being arrogant when it was simply “very innovative and very aggressive”—just like Drexel Burnham Lambert under Michael Milken, the “junk-bond king”.

Mr Milken was a friend of his, a man who, after serving time in jail, became one of America's leading philanthropists. Perhaps Mr Lay hoped that his own story would have a similarly happy ending. But this was hardly a realistic hope. His chances of overturning conviction on appeal looked slim. He was much older than Mr Milken when he was convicted. And he would have gone to jail for far longer, bearing in mind the new, tougher sentencing requirements.

Above all, as became clear only days before his death, apparently of a massive heart attack, the government had no intention of leaving him with any assets, to give away or not. He died as the face of America's turn-of-the-century corporate crime wave, and with none of the later compensations God allowed even to Job.

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Overview

Jul 6th 2006
From The Economist print edition

Japan's businesses remained in confident mood in the second quarter, according to the Bank of Japan's Tankan survey. Large enterprises, for example, are planning to increase their investment by 11.6% this fiscal year. The country's headline inflation rate was 0.6% in the year to May, and core consumer prices, which exclude fresh food, rose at the same pace. The numbers added to speculation that the bank will raise interest rates as early as its next meeting on July 14th. Unemployment was 4.0% in May, compared with 4.1% in April.

America's **Federal Reserve** raised interest rates by a quarter of a percentage point to 5.25%, its 17th such rise in a row. It said that core inflation had been “elevated” recently, but that growth was slowing. It did not say, as it has before, that a further rise might be needed; everything will depend on “incoming information”. Meanwhile, its preferred measure of inflation, the core price index for personal-consumption expenditures, rose by 2.1% in the year to May.

America's personal **saving** rate fell further into negative territory: Americans spent 101.7% of their disposable income in May.

Annual inflation in the **euro area** remained at 2.5% in June and unemployment edged downwards to 7.9% in May. The volume of retail trade fell by 0.6% in May, compared with April, leaving it 0.8% higher than the year before.

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About sponsorship

Output, demand and jobs

Jul 6th 2006
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2006	2007	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 3.1	Q1	+ 3.5	+ 3.2	+ 3.4	+ 0.6	Q4	+ 2.7	Q1	4.9	May	5.1
Austria	+ 3.0	Q1	+ 2.4	+ 2.2	+ 1.9	+ 8.4	Apr	+ 1.0	Mar	4.8	Jun	5.2
Belgium	+ 2.2	Q1	+ 3.2	+ 2.4	+ 1.9	+ 5.1	Apr	+ 0.8	Apr	12.0	May†	12.2
Britain	+ 2.3	Q1	+ 2.3	+ 2.4	+ 2.5	– 1.0	Apr	+ 4.0	May	5.3	Apr‡	4.7
Canada	+ 3.2	Q1	+ 3.8	+ 3.2	+ 2.7	+ 3.1	Apr	+ 4.4	Mar	6.1	May	6.9
Denmark	+ 4.3	Q1	+ 1.7	+ 2.7	+ 2.2	– 0.7	Apr	+ 5.3	May	4.5	May	5.9
France	+ 1.5	Q1	+ 2.2	+ 2.1	+ 1.9	– 0.3	Apr	+ 2.4	Apr	9.1	May	10.1
Germany	+ 1.4	Q1	+ 1.6	+ 1.8	+ 1.2	+ 4.8	Apr	– 1.9	May	10.9	Jun§	11.9
Italy	+ 1.5	Q1	+ 2.4	+ 1.3	+ 1.1	– 2.6	Apr	– 3.2	Mar	7.7	Dec	7.9
Japan	+ 3.8	Q1	+ 3.1	+ 3.0	+ 2.4	+ 4.2	May	– 1.5	Apr	4.0	May	4.4
Netherlands	+ 2.9	Q1	+ 0.7	+ 2.3	+ 2.1	+ 0.4	Apr	+ 4.0	Mar	5.8	May††	6.7
Spain	+ 3.5	Q1	+ 3.3	+ 3.3	+ 2.8	+ 7.9	May	nil	Apr	8.3	May	9.3
Sweden	+ 4.1	Q1	+ 4.6	+ 3.7	+ 2.8	+ 6.2	Apr	+11.8	May	4.8	May†	5.2
Switzerland	+ 3.5	Q1	+ 3.8	+ 2.9	+ 1.9	+ 9.2	Q1	– 0.7	Apr	3.3	May†	3.7
United States	+ 3.7	Q1	+ 5.6	+ 3.4	+ 2.7	+ 4.3	May	+ 4.7	May	4.6	May	5.1
Euro area	+ 1.9	Q1	+ 2.4	+ 2.2	+ 1.8	+ 1.9	Apr	+ 0.8	May	7.9	May	8.7
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 2.8	Q1	+ 1.6	na	na	+15.4	May	+ 6.8	Apr	7.6	May	8.3
Greece	+ 4.1	Q1	na	na	na	– 1.9	Apr	+ 6.0	Mar	9.7	Q4	10.4
Iceland	+ 5.0	Q1	na	na	na	na		na		1.3	Apr†	2.3
Ireland	+ 5.7	Q4	+ 7.6	na	na	+10.8	Apr	+ 6.7	Apr	4.4	May	4.4
Luxembourg	+ 5.7	Q4	na	na	na	+ 5.8	Mar	+ 4.6	May	4.1	May	4.0
New Zealand	+ 2.1	Q1	+ 2.3	na	na	– 2.9	Q4	+ 3.0	Q1	3.9	Q1	3.9
Norway	+ 5.4	Q1	+ 2.3	na	na	– 7.5	Apr	+ 6.3	May	3.7	May††	4.7
Portugal	+ 1.0	Q1	+ 1.8	na	na	+ 6.8	May	+ 2.4	May	7.7	Q1†	7.5

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡Feb-Apr; claimant count rate 3.0% in May.
§EU harmonised rate 8.2% in Apr. ††Mar-May.

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About sponsorship

Prices and wages

Jul 6th 2006
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2006	2007	latest		year ago	latest		year ago
Australia	+ 3.0	Q1	+ 2.4	+ 2.9	+ 2.7	+ 7.9	Q1	+ 6.0	+ 4.0	Q1	+ 4.5
Austria	+ 1.7	May	+ 2.3	+ 2.0	+ 1.9	+ 3.9	Jun	+ 0.7	+ 2.8	May	+ 2.3
Belgium	+ 1.9	Jun	+ 2.9	+ 2.1	+ 1.9	+ 4.9	Apr	+ 3.3	+ 2.3	Apr	+ 2.6
Britain	+ 2.2	May*	+ 1.9	+ 2.0	+ 1.9	+ 3.0	May	+ 2.7	+ 4.4	Apr†	+ 4.6
Canada	+ 2.8	May	+ 1.6	+ 2.3	+ 2.1	+ 2.5	May	– 0.3	+ 0.3	Apr	+ 2.6
Denmark	+ 2.0	May	+ 1.5	+ 2.0	+ 2.0	+ 5.7	May	+ 3.0	+ 2.9	Q1	+ 3.1
France	+ 2.1	May	+ 1.5	+ 1.9	+ 1.6	+ 4.1	May	+ 2.5	+ 3.3	Q1	+ 2.9
Germany	+ 2.0	Jun	+ 1.8	+ 1.8	+ 2.3	+ 5.0	May	+ 1.7	+ 2.2	Apr	+ 1.5
Italy	+ 2.3	Jun	+ 1.8	+ 2.1	+ 1.9	+ 6.6	May	+ 3.2	+ 2.6	May	+ 3.1
Japan	+ 0.6	May	+ 0.2	+ 0.5	+ 0.6	+ 3.3	May	+ 1.8	+ 0.6	May	+ 0.1
Netherlands	+ 1.3	Jun	+ 1.6	+ 1.5	+ 1.5	+ 6.0	May	+ 3.8	+ 1.9	May	+ 0.4
Spain	+ 4.0	Jun	+ 3.2	+ 3.6	+ 2.9	+ 6.5	May	+ 4.2	+ 3.0	Q1	+ 2.5
Sweden	+ 1.6	May	+ 0.1	+ 1.4	+ 1.8	+ 5.0	May	+ 2.4	+ 3.6	Apr	+ 2.3
Switzerland	+ 1.6	Jun	+ 0.7	+ 1.3	+ 1.2	+ 2.4	May	+ 0.3	+ 1.0	2005	+ 0.9
United States	+ 4.2	May	+ 2.8	+ 3.5	+ 2.4	+ 4.5	May	+ 3.6	+ 3.7	May	+ 2.6
Euro area	+ 2.5	Jun	+ 2.1	+ 2.2	+ 2.1	+ 6.0	May	+ 3.5	+ 2.2	Q1	+ 3.2
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.7	May	+ 0.8	na	na	+ 6.7	May	+ 2.3	+ 3.4	Q1	+ 4.0
Greece	+ 3.1	May	+ 3.2	na	na	+ 8.4	May	+ 3.0	na		na
Iceland	+ 8.0	Jun	+ 2.8	na	na	+ 7.1	Jun	+ 4.2	+ 8.7	May	+ 6.6
Ireland	+ 3.9	May	+ 2.4	na	na	+ 0.6	May	– 2.2	+ 2.2	Q1	+ 6.4
Luxembourg	+ 3.1	May	+ 2.4	na	na	+ 5.4	Apr	+10.1	+ 4.5	Mar	+ 2.5
New Zealand	+ 3.3	Q1	+ 2.8	na	na	+ 7.2	Q1	+ 4.2	+ 3.3	Q1	+ 2.5
Norway	+ 2.3	May	+ 1.6	na	na	+19.8	May	+ 9.2	+ 3.6	Q1	+ 4.2
Portugal	+ 3.0	May	+ 1.8	na	na	+ 5.8	May	+ 3.7	+ 0.1	Apr	– 1.8

*RPI inflation rate 3.0% in May. †Feb-Apr.

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Economic forecasts

Jul 6th 2006
From The Economist print edition

July averages (previous month's, if changed)

	Real GDP, % change				Consumer prices % increase		Current account % of GDP	
	Low/high range		average					
	2006	2007	2006	2007	2006	2007	2006	2007
Australia	2.9/3.7	2.6/3.8	3.2	3.4	2.9	2.7	-5.6	-5.2 (-5.0)
Austria	1.8/2.4	1.4/2.2	2.2	1.9	2.0 (1.8)	1.9 (1.8)	0.3 (0.1)	-0.1 (0.1)
Belgium	2.2/2.6	1.5/2.2	2.4 (2.3)	1.9	2.1 (2.0)	1.9 (1.8)	1.5 (2.0)	1.6 (2.0)
Britain	2.1/2.8	2.1/2.9	2.4	2.5	2.0	1.9	-2.9(-2.7)	-2.9 (-2.7)
Canada	2.8/3.5	2.6/3.1	3.2 (3.1)	2.7 (2.8)	2.3	2.1 (2.2)	2.1 (2.2)	1.1 (1.5)
Denmark	2.2/3.5	1.7/3.1	2.7	2.2	2.0	2.0	2.3 (2.5)	2.2 (2.3)
France	1.8/2.3	1.7/2.6	2.1 (2.0)	1.9	1.9 (1.8)	1.6 (1.5)	-1.8	-1.5 (-1.4)
Germany	1.5/2.2	0.3/2.2	1.8	1.2	1.8 (1.7)	2.3	3.7 (3.8)	3.8 (4.0)
Italy	1.0/1.7	0.5/2.0	1.3	1.1	2.1	1.9 (1.8)	-1.6	-1.5
Japan	2.6/3.2	1.8/3.5	3.0 (2.9)	2.4	0.5	0.6	3.8 (3.6)	3.8 (3.4)
Netherlands	1.9/2.8	1.6/2.9	2.3 (2.4)	2.1 (2.0)	1.5	1.5	5.9 (5.8)	5.8 (5.7)
Spain	3.1/3.5	2.5/3.0	3.3 (3.2)	2.8	3.6 (3.5)	2.9	-7.7(-7.3)	-7.7 (-7.4)
Sweden	3.3/4.2	2.4/3.1	3.7 (3.4)	2.8	1.4 (1.3)	1.8	6.6 (6.5)	6.1 (6.2)
Switzerland	2.3/3.5	1.1/2.3	2.9 (2.4)	1.9 (1.7)	1.3 (1.2)	1.2	13.4(13.0)	12.5 (12.3)
United States	3.1/3.7	2.4/3.2	3.4	2.7 (2.8)	3.5 (3.3)	2.4	-6.8(-6.9)	-6.9
Euro area	1.8/2.6	1.4/2.7	2.2 (2.1)	1.8 (1.7)	2.2 (2.1)	2.1 (2.0)	-0.4(-0.3)	-0.3 (-0.2)

Sources: ABN AMRO, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, KBC Bank, JPMorgan Chase, Morgan Stanley, Decision Economics, BNP Paribas, Royal Bank of Canada, Citigroup, Scotiabank, UBS

Each month *The Economist* surveys a group of forecasters and calculates the average of their predictions for economic growth, inflation and current-account balances in 15 countries and the euro area. The table also shows the highest and lowest projections for growth. The previous month's figures, where different, are shown in brackets. The panel now thinks that Japan will grow by 3.0% this year, compared with its forecast of 2.9% in June. It also expects Japan to amass a bigger current-account surplus, amounting to 3.8% of GDP in 2006, compared with June's forecast of 3.6%. The panel thinks that American inflation will be 3.5% this year, compared with 3.3% a month ago, but it has lowered its projection for the current-account deficit to 6.8% of GDP from 6.9%. It expects euro-area inflation to reach 2.2% this year, up from June's prediction of 2.1%.

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About sponsorship

Money and interest rates

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From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Jul 5th 2006)					
				3-mth money market		2-year gov't bonds	10-year gov't bonds		corporate bonds
	narrow	broad		latest	year ago		latest	year ago	
Australia	+ 9.0	+ 9.8	May	5.95	5.65	5.79	5.78	5.13	6.84
Britain	+ 5.4‡	+11.8	May	4.70	4.64	4.77	4.71	4.28	5.75‡
Canada	+11.9	+ 6.5	May	4.30	2.52	4.44	4.64	3.95	5.81
Denmark	+13.8	+13.2	May	3.15	2.20	3.70	4.13	3.16	5.44
Japan	+ 4.4	+ 1.4	May	0.26	0.02	0.90	1.97	1.24	2.10
Sweden	+ 0.6	+11.5	May	2.29	1.49	3.28	4.03	3.02	4.00
Switzerland	+ 1.4	+ 3.3	May	1.53	0.75	2.08	2.87	1.94	2.80
United States	+ 1.7	+ 4.7	May§	5.32	3.51	5.23	5.22	4.07	6.14
Euro area†	+10.2	+ 8.9	May	3.06	2.12	3.58	4.09	3.19	4.66

*Narrow: M1 except Britain notes and coin and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. ‡New series. §New series for broad money supply. Benchmarks: US 30-year 5.27%, Japan No. 281 1.98%. Central bank rates: US fed funds 5.25%, ECB refinancing 2.50%, BOJ overnight call 0.02%, BOE repo 4.5%. Sources: Bank of Canada, Commerzbank, Danske Bank, Global Insight, JPMorgan Chase, Lehman Brothers, Stockholmsbörsen, UBS, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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About sponsorship

The Economist commodity price index

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From The Economist print edition

2000=100

	Jun 27th	Jul 4th*	% change on one month	% change on one year
Dollar index				
All items	168.9	175.8	+ 0.7	+ 31.1
Food	135.7	139.7	+ 2.7	+ 6.7
Industrials				
All	211.9	222.4	– 0.8	+ 61.1
Nfa†	161.6	161.5	– 0.3	+ 19.3
Metals	239.3	255.6	– 1.0	+ 83.1
Sterling index				
All items	140.4	144.3	+ 1.4	+ 24.5
Euro index				
All items	124.0	127.0	+ 0.8	+ 22.0
Yen index				
All items	182.1	186.9	+ 1.7	+ 34.5
Gold				
$ per oz	593.30	624.75	– 0.3	+ 47.6
West Texas Intermediate				
$ per barrel	71.99	72.86	+ 0.6	+ 22.3

*Provisional. †Non-food agriculturals.

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About sponsorship

Stockmarkets

Jul 6th 2006
From The Economist print edition

Market indices

	Jul 5th	2006 high	2006 low	% change on one week	% change on record high	% change on Dec 30th 2005 in local currency	% change on Dec 30th 2005 in $ terms
Australia (All Ordinaries)	5,054.3	5,318.2	4,708.8	+ 3.0	- 5.0	+ 7.3	+ 8.4
Austria (ATX)	3,773.5	4,344.4	3,324.1	+ 5.6	- 13.1	+ 2.9	+10.9
Belgium (Bel 20)	3,683.3	3,987.3	3,445.1	+ 2.7	- 7.6	+ 3.8	+11.9
Britain (FTSE 100)	5,826.7	6,132.7	5,506.8	+ 2.6	- 15.9	+ 3.7	+10.8
Canada (Toronto Composite)	11,626.4	12,487.3	10,904.3	+ 2.6	- 6.9	+ 3.1	+ 8.2
Denmark (OMXCB)	349.1	395.5	325.0	+ 3.4	- 11.7	- 5.1	+ 2.3
France (SBF 250)	3,465.6	3,755.6	3,244.2	+ 2.8	- 21.1	+ 5.0	+13.2
France (CAC 40)	4,921.3	5,312.2	4,615.4	+ 3.1	- 28.9	+ 4.4	+12.5
Germany (DAX)*	5,625.6	6,140.7	5,292.1	+ 3.1	- 30.2	+ 4.0	+12.1
Italy (S&P/MIB)	36,207.0	38,765.0	34,850.0	+ 1.9	- 27.7	+ 1.4	+ 9.3
Japan (Nikkei 225)	15,523.9	17,563.4	14,218.6	+ 4.3	- 60.1	- 3.6	- 1.7
Japan (Topix)	1,590.0	1,783.7	1,458.3	+ 4.1	- 44.9	- 3.6	- 1.7
Netherlands (AEX)	439.2	478.0	412.9	+ 3.6	- 37.4	+ 0.5	+ 8.4
Spain (Madrid SE)	1,249.0	1,318.5	1,156.8	+ 2.8	- 5.3	+ 8.0	+16.5
Sweden (Affarsvarlden Gen)	298.6	333.7	275.2	+ 3.1	- 25.4	+ 1.8	+12.2
Switzerland (Swiss Market)	7,659.2	8,122.1	7,154.9	+ 3.1	- 8.9	+ 1.0	+ 7.8
United States (DJIA)	11,151.8	11,642.7	10,667.4	+ 1.6	- 4.9	+ 4.1	+ 4.1
United States (S&P 500)	1,270.9	1,325.8	1,223.7	+ 2.0	- 16.8	+ 1.8	+ 1.8
United States (NASDAQ Comp)	2,153.3	2,370.9	2,072.5	+ 2.0	- 57.3	- 2.4	- 2.4
Europe (FTSEurofirst 300)†	1,306.1	1,405.6	1,238.7	+ 2.7	- 23.4	+ 2.4	+10.4
Euro area (FTSE Euro 100)†	1,111.9	1,198.7	1,050.0	+ 3.0	- 28.3	+ 2.1	+10.1
World (MSCI)‡	1,314.0	1,406.3	1,243.9	+ 3.2	- 9.3	+ 4.5	+ 4.5
World bond market (Citigroup)††	631.4	648.4	612.1	+ 0.8	- 5.3	+ 1.8	+ 1.8

*Total return index. †In euro terms. ‡Morgan Stanley Capital International index includes individual markets listed above plus eight others, in $ terms. ††Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Jul 6th 2006
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current-account balance $bn latest 12 mths		The Economist poll % of GDP, forecast 2006	2007	Exchange rate trade-weighted† 2000=100 Jul 5th	year ago	Currency units per $ Jul 5th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2006†
Australia	− 11.7	Apr	− 40.6	Q1	− 5.6	− 5.2	115.8	116.2	1.35	1.35	2.48	1.72	1.17	+ 0.9
Austria	− 1.2	Apr	+ 0.5	Dec	+ 0.3	− 0.1	105.3§	105.7	0.79	0.84	1.44	–	0.68	− 1.9
Belgium	+ 13.2	Apr	+ 7.3	Mar	+ 1.5	+ 1.6	107.1§	107.6	0.79	0.84	1.44	–	0.68	− 0.4
Britain	−126.3	Apr	− 52.3	Q1	− 2.9	− 2.9	99.2	99.2	0.55	0.57	–	0.69	0.47	− 3.4
Canada	+ 57.6	Apr	+ 31.8	Q1	+ 2.1	+ 1.1	129.4	117.3	1.11	1.24	2.04	1.42	0.96	+ 2.2
Denmark	+ 8.5	Apr	+ 5.3	Apr	+ 2.3	+ 2.2	106.5	105.7	5.87	6.25	10.8	7.46	5.07	+ 3.3
France	− 28.0	Apr	− 32.6	Apr	− 1.8	− 1.5	107.9§	108.5	0.79	0.84	1.44	–	0.68	− 2.9
Germany	+188.7	Apr	+109.3	Apr	+ 3.7	+ 3.8	109.4§	110.1	0.79	0.84	1.44	–	0.68	− 3.1
Italy	− 18.2	Apr	− 28.5	Apr	− 1.6	− 1.5	107.5§	108.0	0.79	0.84	1.44	–	0.68	− 4.2
Japan	+ 80.7	Apr	+162.7	Apr	+ 3.8	+ 3.8	81.2	86.4	116	112	212	147	–	− 5.2
Netherlands	+ 39.0	Apr	+ 42.3	Q1	+ 5.9	+ 5.8	108.0§	108.4	0.79	0.84	1.44	–	0.68	− 0.5
Spain	− 99.9	Apr	− 88.9	Mar	− 7.7	− 7.7	105.6§	106.9	0.79	0.84	1.44	–	0.68	+ 1.1
Sweden	+ 20.1	May	+ 23.2	Q1	+ 6.6	+ 6.1	98.9	95.2	7.22	7.87	13.2	9.18	6.24	+ 1.7
Switzerland	+ 7.8	May	+ 50.2	Q4	+13.4	+12.5	106.2	106.0	1.23	1.30	2.26	1.57	1.07	− 0.2
United States	−814.7	Apr	−808.5	Q1	− 6.8	− 6.9	83.5	87.1	–	–	1.83	1.27	0.86	− 3.6
Euro area	+ 2.2	Apr	− 39.2	Apr	− 0.4	− 0.3	119.2	114.8	0.79	0.84	1.44	–	0.68	− 2.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 7.1	Apr	+ 5.4	Apr	na	na	108.7§	109.2	0.79	0.84	1.44	–	0.68	+ 2.2
Greece	− 36.8	Apr	− 21.7	Apr	na	na	104.7§	104.9	0.79	0.84	1.44	–	0.68	− 3.0
Iceland	− 1.8	May	− 3.1	Q1	na	na	101.8**	101.3	75.3	65.6	138	95.8	65.1	+ 2.0
Ireland	+ 37.4	Apr	− 5.6	Q1	na	na	113.1§	114.0	0.79	0.84	1.44	–	0.68	− 0.3
Luxembourg	− 5.1	Apr	+ 3.6	Q4	na	na	107.1§	107.6	0.79	0.84	1.44	–	0.68	− 1.7
New Zealand	− 4.8	May	− 10.1	Q1	na	na	118.8	134.2	1.66	1.48	3.04	2.11	1.43	+ 4.6
Norway	+ 55.1	May	+ 50.2	Q1	na	na	110.7	110.0	6.25	6.64	11.5	7.95	5.40	+ 18.5
Portugal	− 22.8	Mar	− 16.9	Apr	na	na	105.1**	106.1	0.79	0.84	1.44	–	0.68	− 5.0

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, April average. ‡OECD forecast. **IMF, February average.

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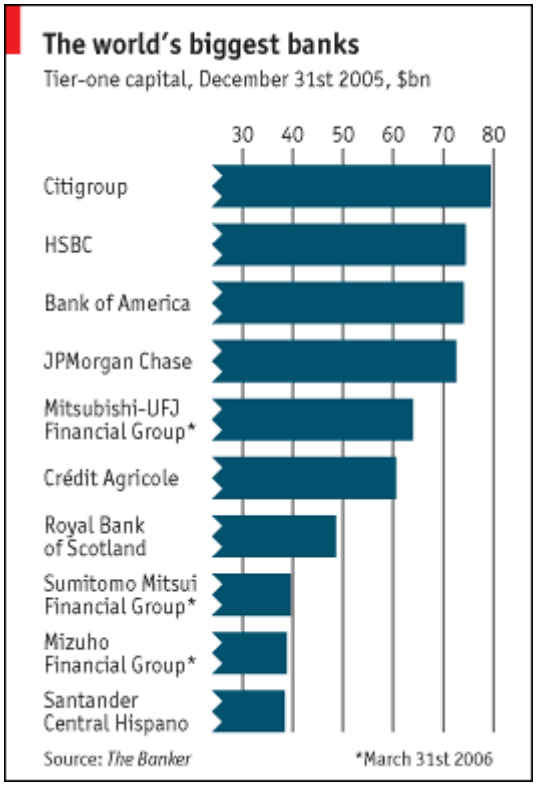
The world's biggest banks

Jul 6th 2006
From The Economist print edition



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Overview

Jul 6th 2006
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Turkey's consumer prices increased by 10.1% in the year to June, but the monthly gain was less than analysts had feared. The economy grew by 6.4% in the first quarter, but the merchandise-trade deficit widened to $49.1 billion in the year to May.

Pakistan's GDP grew by 6.6% in the year to June. Its consumer prices rose by 7.1% in the year to May, and its merchandise-trade deficit was $11.2 billion over the same period.

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Poland

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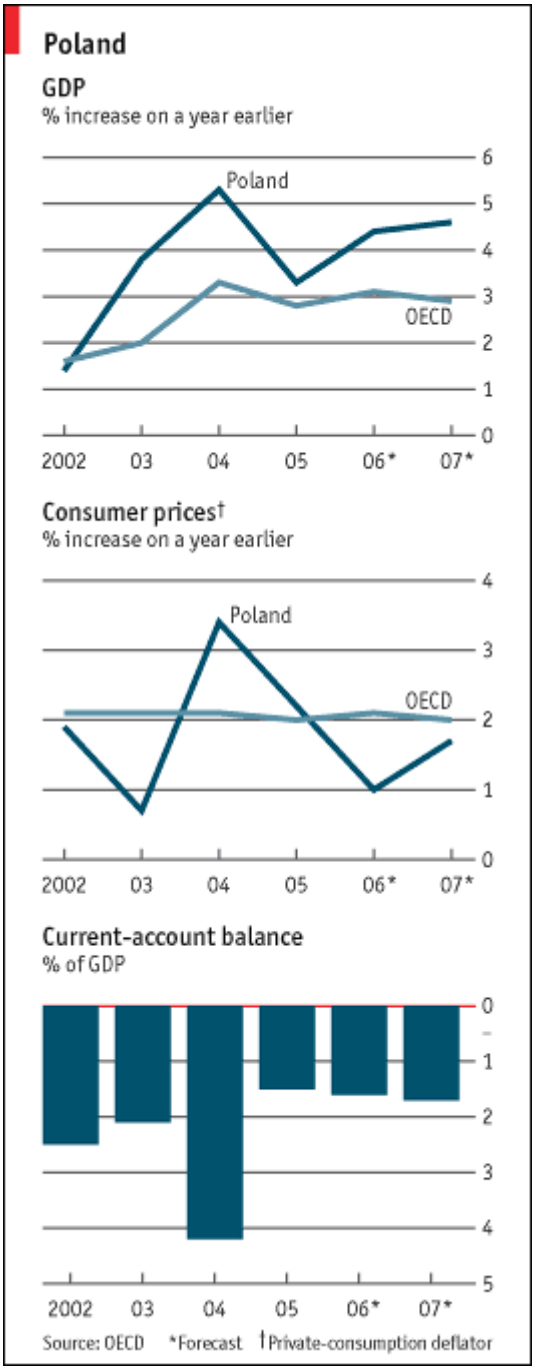
From The Economist print edition

Poland's economy is catching up with its richer rivals again, according to the OECD's latest survey of the country. But its labour market remains the worst in the OECD, and it needs better macroeconomic and structural policies if it is to sustain the improvement. These include a less cautious monetary policy, tighter links between the education system and the labour market, less public ownership, and a more welcoming attitude to foreign investment.



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Economy

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	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+10.3	Q1	+17.9	May	+ 1.4	May	+118.1	May	+160.8	2005	925.0	May
Hong Kong	+ 8.2	Q1	+ 7.0	Q1	+ 2.1	May	−13.1	May	+20.7	Q1	126.5	May
India	+ 9.3	Q1	+ 9.5	Apr	+ 6.3	May	−41.0	May	−10.6	Q1	156.7	May
Indonesia	+ 4.6	Q1	+ 0.2	Mar	+15.5	Jun	+32.7	May	+ 3.0	Q4	40.8	Apr
Malaysia	+ 5.3	Q1	+ 4.7	Apr	+ 3.9	May	+26.9	May	+19.5	Q1	79.0	May
Pakistan	+ 6.6	2006†	+19.3	Sep	+ 7.1	May	−11.2	May	− 4.8	Q1	11.5	Apr
Philippines	+ 5.5	Q1	−13.9	Apr	+ 6.7	Jun	− 3.6	Apr	+ 2.9	Mar	18.1	May
Singapore	+10.6	Q1	+10.6	May	+ 1.1	May	+32.7	May	+36.1	Q1	128.9	May
South Korea	+ 6.1	Q1	+11.6	May	+ 2.6	Jun	+18.2	Jun	+ 8.9	May	224.7	May
Taiwan	+ 4.9	Q1	+ 8.6	May	+ 1.7	Jun	+10.1	May	+18.1	Q1	260.4	Jun
Thailand	+ 6.0	Q1	+ 8.9	May	+ 5.9	Jun	− 3.7	May	+ 1.2	May	56.0	May
Argentina	+ 8.6	Q1	+ 6.0	May	+11.0	Jun	+11.6	May	+ 6.7	Q1	21.2	Apr
Brazil	+ 3.4	Q1	− 1.9	Apr	+ 4.2	May	+44.7	Jun	+12.7	May	63.4	May
Chile	+ 5.1	Q1	+ 6.9	May	+ 3.9	Jun	+14.2	May	+ 0.8	Q1	17.4	May
Colombia	+ 5.2	Q1	− 1.8	Apr	+ 3.9	Jun	+ 1.1	Mar	− 2.0	Q1	14.5	May
Mexico	+ 5.5	Q1	− 0.8	Apr	+ 3.0	May	− 3.8	May	− 1.2	Q1	78.4	Apr
Peru	+ 3.6	Apr	− 1.5	Apr	+ 1.8	Jun	+ 5.7	Apr	+ 0.7	Q1	13.3	Apr
Venezuela	+ 9.4	Q1	+21.0	Mar	+11.8	Jun	+34.8	Q1	+28.1	Q1	23.7	Apr
Egypt	+ 5.9	Q1	+ 4.0	2005†	+ 5.3	May	−11.2	Q1	+ 2.1	Q1	22.1	May
Israel	+ 5.2	Q1	+ 2.7	Apr	+ 3.5	May	− 8.1	May	+ 4.4	Q1	28.2	May
Saudi Arabia	+ 6.5	2005‡	na		+ 2.4	Apr	+134.3	2005	+90.7	2005	24.0	Apr
South Africa	+ 4.0	Q1	+ 0.1	Apr	+ 3.9	May	− 6.1	May	−11.7	Q1	21.5	May
Czech Republic	+ 7.4	Q1	+ 3.6	Apr	+ 3.1	May	+ 1.7	Apr	− 3.4	Q1	30.8	May
Hungary	+ 4.6	Q1	+ 7.4	May	+ 2.8	May	− 3.1	Apr	− 7.9	Q1	21.8	May
Poland	+ 5.2	Q1	+19.1	May	+ 1.2	May	− 2.6	Apr	− 4.4	Apr	46.4	May
Russia	+ 5.5	Q1	+10.6	May	+ 9.1	Jun	+132.3	Apr	+93.5	Q1	239.3	May
Turkey	+ 6.4	Q1	+ 7.1	Apr	+10.1	Jun	−49.1	May	−26.9	Apr	59.8	Apr
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+11.6	Q1	+11.3	May	+ 4.7	May	− 2.7	Apr	− 1.5	Apr	2.2	Apr
Latvia	+13.5	Q1	+ 0.4	Apr	+ 6.5	May	− 3.3	Apr	− 2.1	Apr	2.6	Apr
Lithuania	+ 8.1	Q1	na		+ 3.6	May	− 3.7	Apr	− 1.8	Apr	4.0	Apr
Slovakia	+ 6.3	Q1	+ 8.1	Apr	+ 4.8	May	− 2.8	Apr	− 4.7	Mar	16.2	Apr
Slovenia	+ 5.1	Q1	+ 0.6	Apr	+ 2.9	Jun	− 1.6	Apr	− 0.3	Apr	8.3	Mar

*Excluding gold, except Singapore and China; IMF definition. †Year ending June. ‡Economist Intelligence Unit estimate.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group

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Financial markets

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	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Jul 5th		Dec 30th 2005	
	Jul 5th	year ago	Jul 5th	% a year		one week	in local currency	in $ terms
China	8.00	8.28	14.7	2.75	1,807.3	+4.9	+ 48.0	+ 49.4
Hong Kong	7.77	7.77	14.2	4.59	16,267.2	+3.3	+ 9.3	+ 9.1
India	46.1	43.6	84.5	6.34	10,919.6	+7.8	+ 16.2	+ 13.5
Indonesia	9,120	9,783	16,722	12.93	1,338.3	+5.2	+ 15.1	+ 24.2
Malaysia	3.65	3.80	6.69	3.93	924.9	+2.0	+ 2.8	+ 6.4
Pakistan	60.3	59.7	110	9.13	9,936.3	+5.3	+ 4.0	+ 3.2
Philippines	52.8	56.1	96.9	7.94	2,262.3	+9.5	+ 7.9	+ 8.4
Singapore	1.59	1.70	2.91	3.50	2,424.1	+3.1	+ 3.3	+ 8.2
South Korea	947	1,049	1,736	4.57	1,279.9	+3.3	- 7.2	- 0.9
Taiwan	32.4	31.9	59.4	1.79	6,660.0	+1.8	+ 1.7	+ 3.1
Thailand	38.2	41.6	70.0	5.40	680.7	+2.1	- 4.6	+ 2.4
Argentina	3.09	2.88	5.66	10.00	1,700.2	+4.2	+ 10.2	+ 8.0
Brazil	2.19	2.39	4.02	15.18	36,378.0	+4.4	+ 8.7	+ 15.7
Chile	541	584	993	4.92	9,901.6	+2.3	+ 7.6	+ 1.7
Colombia	2,579	2,345	4,729	6.14	7,942.2	+12.3	- 16.5	- 26.0
Mexico	11.2	10.8	20.5	7.02	19,514.6	+7.8	+ 9.6	+ 4.4
Peru	3.26	3.25	5.97	4.50	8,457.1	+6.6	+ 76.1	+ 85.5
Venezuela	2,511§	2,613§	4,605	10.15	30,972.2	+1.2	+ 51.9	+ 56.4
Egypt	5.76	5.78	10.56	8.86	47,050.4	+10.3	- 15.0	- 15.3
Israel	4.40	4.60	8.07	5.55	823.1	+3.2	- 0.6	+ 4.0
Saudi Arabia	3.75	3.75	6.88	5.19	13,053.2	-0.7	- 21.9	- 21.9
South Africa	7.20	6.83	13.2	7.65	20,935.9	+3.6	+ 15.7	+ 1.9
Czech Republic	22.4	25.2	41.1	2.24	1,375.7	+4.1	- 6.6	+ 2.5
Hungary	221	207	405	6.96	21,617.7	+7.2	+ 4.0	+ 0.7
Poland	3.18	3.41	5.83	4.20	40,814.4	+1.7	+ 14.6	+ 17.4
Russia	26.9	28.8	49.4	11.50	1,501.3‡	+6.2	+ 24.9	+ 33.4
Turkey	1.60	1.35	2.94	21.22	35,385.0	+6.6	- 11.0	- 24.9
EM (MSCI)*	1.00	1.00	1.83	na	745.8	+5.3	+ 5.6	+ 5.6
EMBI+†	1.00	1.00	1.83	na	366.1	+1.4	- 0.7	- 0.7

*Emerging Mkts. †JPMorgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Floating exchange rate.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group

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